



Carter Hawley Hale

December 1992

As per your recent request, we are forwarding to you our current financial information.

In March of 1991, the company announced a change in its fiscal year to end on the Saturday closest to January 31st. Because of the change, the company treated the six months ended February 2, 1991, as a six month fiscal year. For this six month period a Form 10-K was issued in lieu of an Annual Report.

For the fiscal year ended February 1, 1992, another Form 10-K was issued in lieu of an Annual Report.

Our last Annual Report 1990 was for the fiscal year ended August 4, 1990. Our last Proxy Statement was in November 1990.

On October 8, 1992, Carter Hawley Hale Stores, Inc. emerged from Chapter 11 and declared its plan of reorganization effective.

Thank you for your interest in Carter Hawley Hale Stores, Inc.

If you have any questions, please call: John Busey, Vice-President/Treasurer at 213/239-6566.

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444 South Flower Street  
P.O. Box 17902  
Los Angeles, California 90017



**CARTER HAWLEY HALE STORES, INC.**

**Consolidated Statement of Earnings**

	Twenty-Six Weeks Ended February 2, 1991	Twenty-Seven Weeks Ended February 3, 1990 (Unaudited)	Year Ended		
			August 4, 1990 (53 weeks)	July 29, 1989 (52 weeks)	July 30, 1988 (52 weeks)
(In thousands, except per share data)					
Sales	\$1,318,565	\$1,643,635	\$2,857,819	\$2,787,393	\$2,617,143
Cost of goods sold, including occupancy and buying costs	985,018	1,185,210	2,085,344	2,001,188	1,879,664
Selling, general, and administrative expenses	292,241	338,967	617,580	607,441	587,869
Interest expense	71,046	87,598	174,234	160,344	135,600
Interest income			(12,700)		
Provision for consolidation programs	47,000				
Gain on sale of Thalhimers	(30,000)				
Other (income) expense		4,150	4,831	6,000	(1,500)
Earnings (loss) from operations before reorganization item and income taxes	(46,740)	27,710	(11,470)	12,420	15,510
Reorganization item Provision for store closings	40,000				
Earnings (loss) from operations before income taxes	(86,740)	27,710	(11,470)	12,420	15,510
Income taxes	(13,200)	11,050	(2,000)	5,000	6,200
Earnings (loss) before extraordinary items and cumulative effect of changes in accounting	(73,540)	16,660	(9,470)	7,420	9,310
Extraordinary items					
Costs related to early retirement of debt, net of income tax benefit of \$1,300, \$6,200 and \$1,210	(14,070)			(9,250)	(1,750)
Earthquake loss, net of income tax benefit of \$7,000 and \$11,000		(10,500)	(16,500)		
Cumulative effect of changes in accounting Income taxes				15,300	
Capitalization of inventory costs, net of income tax expense of \$10,440					10,100
Net earnings (loss)	(87,610)	\$ 6,160	\$ (25,970)	\$ 13,470	\$ 17,660
Earnings (loss) per common share					
Operations	\$ (2.55)	\$ .70	\$ (.37)	\$ .34	\$ .33
Extraordinary items					
Early retirement of debt	(.49)			(.42)	(.08)
Earthquake loss		(.44)	(.66)		
Changes in accounting				.70	
Income taxes					.47
Capitalization of inventory costs					
	\$ (3.04)	\$ .26	\$ (1.03)	\$ .62	\$ .72

See accompanying Summary of Significant Accounting Policies and Financial Review.



**CARTER HAWLEY HALE STORES, INC.**

**Consolidated Balance Sheet**

(In thousands)	February 2, 1991	August 4, 1990
<b>Assets</b>		
Current assets		
Cash	\$ 33,131	\$ 14,221
Restricted cash deposits	45,437	
Accounts receivable, net	699,961	745,883
Merchandise inventories	355,449	550,433
Other current assets	20,086	26,681
	<u>1,154,064</u>	<u>1,337,218</u>
Property and equipment, net	511,690	596,324
Other assets	<u>89,667</u>	<u>111,652</u>
	<u>\$1,755,421</u>	<u>\$2,045,194</u>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities		
Notes payable and current installments	\$ 2,890	\$ 43,721
Accounts payable	29,961	317,549
Accrued liabilities	133,654	125,573
Current income taxes	9,477	6,662
Deferred income taxes	<u>-</u>	<u>299</u>
	175,982	493,804
Liabilities to be subject to settlement under reorganization proceedings	598,650	
Receivables based financing	633,798	678,646
Other long-term debt	453,174	872,687
Capital lease obligations	62,116	67,110
Other liabilities	82,503	96,877
Deferred income taxes	21,825	29,890
Shareholders' Equity		
Common stock, \$.01 par value	303	298
Other paid-in capital	643,252	638,210
Accumulated deficit	<u>(916,182)</u>	<u>(832,328)</u>
	<u>(272,627)</u>	<u>(193,820)</u>
	<u>\$1,755,421</u>	<u>\$2,045,194</u>

See accompanying Summary of Significant Accounting Policies and Financial Review.



**CARTER HAWLEY HALE STORES, INC.**

**Consolidated Statement of Cash Flows**

	Twenty-Six Weeks Ended February 2, 1991	Twenty-Seven Weeks Ended February 3, 1990 (Unaudited)	Year Ended		
			August 4, 1990 (53 weeks)	July 29, 1989 (52 weeks)	July 30, 1988 (52 weeks)
(In thousands)					
Operating activities					
Earnings (loss) from operations	\$ (73,540)	\$ 16,660	\$ (9,470)	\$ 7,420	\$ 9,310
Adjustments to reconcile earnings (loss) from operations to net operating cash flows					
Depreciation and amortization	21,836	27,603	50,995	52,956	51,829
Earthquake costs			(27,500)		
Gain on sale of Thalhimers	(30,000)				
Gains on asset sales			(7,298)		(30,000)
Deferred income taxes	(19,091)		(514)	(2,947)	(22,900)
Change in operating assets and liabilities, net of effect of sale of Thalhimers					
Restricted cash deposits	(45,437)				
Accounts receivable, net	(81,843)	(146,843)	8,272	(272,479)	72,993
Merchandise inventories	94,300	21,826	12,081	(25,858)	(103,790)
Accounts payable and accrued liabilities	29,452	(67,736)	(28,452)	(12,920)	40,149
Receivables securitization deposits		(10,345)	(15,472)	(10,134)	
Other, net	2,882	(16,157)	(18,529)	(12,270)	8,279
Net cash provided (used) by operating activities	(101,441)	(174,992)	(35,887)	(276,232)	25,870
Investing activities					
Proceeds from sale of Thalhimers	317,000				
Purchases of property and equipment	(37,989)	(28,219)	(83,220)	(75,849)	(80,205)
Proceeds from asset sales, net of effect of sale of Thalhimers	619		5,747	4,892	34,199
Net cash provided (used) by investing activities	279,630	(28,219)	(77,473)	(70,957)	(46,006)
Financing activities					
Increase (decrease) in receivables based financing	(44,848)	135,360	26,214	301,432	202,000
Other issuances of long-term debt		20,000	37,182	87,215	798,630
Increase (decrease) in notes payable	(40,000)		40,000	(27,000)	(510,000)
Retirements of long-term debt and capital lease obligations	(71,665)	(6,162)	(53,904)	(13,755)	(115,054)
Costs relating to early retirements of long-term debt, net of items not requiring cash outlay	(5,113)			(974)	(1,750)
Issuances of common stock	2,347	44,697	50,562	3,155	4,587
Restructuring dividend					(346,464)
Preferred stock dividend					(2,055)
Net cash provided (used) by financing activities	(159,279)	193,895	100,054	350,073	29,894
Net increase (decrease) in cash	18,910	(9,316)	(13,306)	2,884	9,758
Cash at the beginning of the period	14,221	27,527	27,527	24,643	14,885
Cash at the end of the period	\$ 33,131	\$ 18,211	\$ 14,221	\$ 27,527	\$ 24,643

See accompanying Summary of Significant Accounting Policies and Financial Review.



**CARTER HAWLEY HALE STORES, INC.**

**Consolidated Statement of Common Stock and Other Shareholders' Equity**

(In thousands)	<u>Common Stock</u>		<u>Other</u>	<u>Accumulated</u>
	<u>Shares</u>	<u>Par Value</u>	<u>Paid-in</u>	<u>Deficit</u>
Balance, August 1, 1987	20,367	\$ 101,837	\$ 174,404	\$(130,469)
Net earnings				17,660
Cash dividends on redeemable preferred stock				(2,055)
Restructuring dividend				(346,464)
Change in common stock par value		(101,632)	101,633	
Conversion of redeemable preferred stock to common and preferred stock of The Neiman Marcus Group			298,987	
Distribution of net assets of The Neiman Marcus Group				(350,438)
Net issuances of common stock under the stock incentive plan	1,827	18	24,620	
Stock incentive plan contra*			(22,869)	
Exercise of stock options and other stock conversions	398	4	4,574	
Balance, July 30, 1988	22,592	226	581,349	(811,766)
Net earnings				13,470
Stock incentive plan contra*			2,042	
Exercise of stock options and other stock issuances	468	4	3,058	
Balance, July 29, 1989	23,060	230	586,449	(798,296)
Net loss				(25,970)
Issuance of common stock	3,450	34	25,418	
Issuances of common stock to profit sharing plan	3,223	32	23,242	
Net cancellations of common stock under the stock incentive plan	(184)	(2)	(3,249)	
Stock incentive plan contra*			4,498	
Exercise of stock options	299	4	1,852	
Recognition of additional minimum pension liability				(8,062)
Balance, August 4, 1990	29,848	298	638,210	(832,328)
Net Loss				(87,610)
Issuances of common stock to profit sharing plan	679	7	2,400	
Net cancellations of common stock under the stock incentive plan	(158)	(2)	(2,171)	
Stock incentive plan contra *			4,813	
Adjustment to additional minimum pension liability				3,756
Balance, February 2, 1991	<u>30,369</u>	<u>\$ 303</u>	<u>\$ 643,252</u>	<u>\$ (916,182)</u>

\* Other Paid-in Capital is net of notes receivable and unamortized costs relating to the Company's stock incentive plan (see Employee Stock Incentive Plans section of the Financial Review).

See accompanying Summary of Significant Accounting Policies and Financial Review.



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# SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

## FORM 10-K

Transition Report Pursuant to Section 13 or 15(d)  
of the Securities Exchange Act of 1934

For the Transition Period From August 5, 1990 to February 2, 1991

Commission File Number 1-8765

### CARTER HAWLEY HALE STORES, INC.

Delaware  
(State or other jurisdiction of  
incorporation or organization)

444 South Flower Street  
Los Angeles, California  
(Address of principal executive offices)

94-0457907  
(I.R.S. Employer  
Identification No.)

90071  
(Zip Code)

Registrant's Telephone Number, including Area Code: (213) 620-0150

Securities Registered pursuant to Section 12(b) of the Act:

<u>Title of Class</u>
Common Stock
Preferred Stock Purchase Rights

<u>Name of Each Exchange on Which Registered</u>
New York Stock Exchange
Pacific Stock Exchange
London Stock Exchange

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Aggregate market value of common stock held by non-affiliates of the registrant as of April 15, 1991: \$63,055,797.

Number of shares of common stock outstanding as of April 15, 1991: 30,368,490.

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## PART I

### ITEM I. BUSINESS

#### GENERAL

Carter Hawley Hale Stores, Inc. (the "Company"), organized in 1896, is a Delaware corporation with executive offices at 444 South Flower Street, Los Angeles, California 90071. The Company's telephone number is (213) 620-0150.

The Company is one of the largest department store retailers in the United States, operating 89 department stores with an aggregate of 16,590,500 square feet of gross store space under the names: The Broadway-Southern California, The Broadway-Southwest, Emporium, and Weinstocks.

On December 14, 1990, the Company completed the sale of Thalhimers Brothers, Inc. ("Thalhimers"), formerly a wholly owned subsidiary, for \$317.0 million. As a result of the sale, Thalhimers has been excluded from the business description of the Company. On April 22, 1991, the Company announced a plan to consolidate the administrative functions of its two Northern California divisions, Emporium and Weinstocks. The consolidation is expected to be completed by August 1991.

The Company generates approximately 90 percent of its sales in stores throughout the state of California. The remainder of the Company's stores are located in other Western states. The stores, which are located primarily in shopping centers, feature goods in the medium-price range and emphasize a high standard of quality. The stores sell a wide range of merchandise, emphasizing apparel and including accessories, home furnishings, electronics and, in most cases, furniture.

#### Chapter 11 Reorganization

General. On February 11, 1991 (the "Petition Date"), the Company filed a voluntary petition for relief (the "Filing") under chapter 11 ("Chapter 11") of title 11 of the United States Code (the "Bankruptcy Code") in the United States Bankruptcy Court for the Central District of California (the "Bankruptcy Court"), seeking to reorganize under Chapter 11. In Chapter 11, the Company will continue to manage its affairs and operate its business as debtor in possession while it develops a reorganization plan that will restructure the Company and allow its emergence from Chapter 11. As debtor in possession in Chapter 11, the Company may not engage in transactions outside of the ordinary course of business without approval, after notice and hearing, of the Bankruptcy Court. The Official Unsecured Creditors' Committee, appointed by the United States Trustee on February 20, 1991 (the "Unsecured Creditors' Committee"), has been reviewing and making recommendations to the Bankruptcy Court with respect to any proposed business transactions that are out of the ordinary course of the Company's business.

Generally, a reorganization plan must be confirmed by the Bankruptcy Court and submitted to a vote of the Company's creditors and stockholders for their approval. The Company has the exclusive right to propose a plan of reorganization for the first 120 days of its Chapter 11 proceedings. That time period may be extended by the Bankruptcy Court. The Company has filed a motion with the Bankruptcy Court to extend the exclusivity period through March 31, 1992. By operation of law, the Company's Chapter 11 filing operates as an automatic stay, among other things, of any act to collect, assess, or recover a claim, including a secured claim, that arose before the commencement of the Chapter 11 proceedings. If the Bankruptcy Court does not lift the automatic stay to permit an entity to collect, assess, or recover on its claim, that claim will be resolved as part of the Company's reorganization plan. Additional liabilities subject to similar resolution in the Company's reorganization plan may arise subsequent to the Petition Date as a result of, among other things, the Company's rejection of executory contracts, including real property leases, pursuant to the relevant provisions of the Bankruptcy Code. In light of the Filing, a review of all Company operations, including the amount of any such additional liabilities, is currently underway.



**Significant Postpetition Events.** Since the Petition Date, the Company has sought and obtained numerous orders from the Bankruptcy Court intended to stabilize its business, including, among others, orders (i) authorizing the Company to operate its cash management system substantially as it was operated prior to the Filing; (ii) approving a \$250.0 million postpetition, unsecured, revolving credit facility providing for working capital loans and letters of credit (the "Working Capital Facility"), as more fully described below in this Item at "Postpetition Financing -- Working Capital Facility," at "ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS" and at "ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA"; (iii) approving the implementation of a \$550.0 million accounts receivable facility (the "Receivables Facility"), as more fully described below in this Item at "Postpetition Financing -- Receivables Facility," "ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS" and at "ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA"; (iv) authorizing the Company to assume its contract with Associated Merchandising Corporation ("AMC"), as more fully described in this Item at "Private Label and Group Purchasing Program"; (v) authorizing the Company to consolidate the administrative functions of its two Northern California divisions, Emporium and Weinstocks; (vi) authorizing the Company to honor certain prepetition customer claims; (vii) authorizing the Company to honor certain employee benefit policies and to pay certain wages and salaries of its active employees; (viii) authorizing the Company to enter into a uniform stipulation resolving reclamation claims of the Company's vendors; (ix) authorizing the Company to make a \$5.2 million contribution to its qualified pension plan for the plan year ending June 30, 1990; and (x) authorizing the Company to consolidate its accounts payable and credit card operations in a newly leased facility in Tempe, Arizona.

For additional information related to the Company's Chapter 11 proceedings, see "ITEM 3. LEGAL PROCEEDINGS." For additional information on the financial impact of Chapter 11 on the operations of the Company's business, see "ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS" and the Reorganization and Basis of Reporting section of Summary of Significant Accounting Policies to the Consolidated Financial Statements.

In accordance with the Bankruptcy Code, the Company can unilaterally reject executory contracts, including real property leases. Any such rejection may give rise to a prepetition unsecured claim for breach of contract. In connection with the Company's Chapter 11 proceedings, a review is being undertaken of all the Company's obligations under its executory contracts, including real property leases. For additional information related to the Company's properties, see this Item at "COMPANY OPERATIONS."

**Postpetition Financing.** On April 8, 1991, the Bankruptcy Court granted final approval of an \$800.0 million aggregate amount debtor in possession financing package that consists of the Working Capital Facility and the Receivables Facility. Each of these facilities is described below.

**Working Capital Facility.** On February 13, 1991, the Bankruptcy Court entered an order approving, among other documents, the Revolving Credit Agreement (the "Postpetition Credit Agreement"), dated as of February 11, 1991, among the Company, Chemical Bank, as administrative agent ("Chemical"), and a syndicate of financial institutions from time to time party thereto (collectively, the "Postpetition Lenders") that established, with such other documents, the Working Capital Facility. This order limited the Company's borrowings thereunder to \$150.0 million; a subsequent order was entered on February 28, 1991 authorizing the Company to borrow up to the entire \$250.0 million amount available under the Working Capital Facility (the "Total Commitment"). Borrowings under the Working Capital Facility may be used by the Company to finance general working capital requirements including purchases of inventory and other expenditures permitted thereunder.



Under the Postpetition Credit Agreement, the Postpetition Lenders agreed to make revolving loans to, and to issue letters of credit for, the account of the Company in an aggregate principal amount not to exceed at any time the lesser of the Borrowing Base (as defined in the Postpetition Credit Agreement) and the Total Commitment. The obligations of the Company under the Postpetition Credit Agreement are an allowed administrative expense claim under Section 364(c)(1) of the Bankruptcy Code in the Company's Chapter 11 proceedings, with a priority over most administrative expenses of the kind specified in Sections 503(b) and 507(b) of the Bankruptcy Code. The Total Commitment includes both direct advances and letters of credit, with a \$60.0 million sublimit for documentary letters of credit, and a \$60.0 million sublimit for standby letters of credit.

The Postpetition Credit Agreement provides that interest upon advances made pursuant thereto will accrue at the rate of 1.5 percent per annum in excess of Chemical's Alternate Base Rate (as defined in the Postpetition Credit Agreement), payable quarterly in arrears. The Alternate Base Rate is equal to the rate per annum equal to the greatest from time to time of (x) the Prime Rate, (y) the Base CD Rate plus 1 percent and (z) the Federal Funds Effective Rate (as each such capitalized term is defined in the Postpetition Credit Agreement) plus 0.5 percent. The Postpetition Credit Agreement also provides that in the event of a default in the payment of any amount due thereunder, the interest rate on such defaulted amount shall be 3.5 percent per annum in excess of the Alternate Base Rate, payable on demand.

The Postpetition Credit Agreement imposes limitations on the Company with respect to, among other things, (i) subject to certain exceptions, the creation or incurrence of liens, (ii) consolidations, mergers, and, subject to certain exceptions, sales of assets, (iii) the incurrence of guarantees or other contingent obligations, (iv) the making of capital expenditures in excess of specified levels, (v) subject to certain exceptions, the creation or incurrence of any indebtedness for borrowed money or the payment of principal of or interest on any prepetition indebtedness; (vi) entering into any material amendments to the Receivables Facility (as described below); (vii) Inventory (as defined in the Postpetition Credit Agreement) falling below certain amounts and (viii) incurring or permitting any claim that is pari passu or senior to the indebtedness of the Postpetition Lenders, subject to certain exceptions (as defined in the Postpetition Credit Agreement). The Postpetition Credit Agreement also requires the Company not to accept payment under its credit cards during the continuance of a payment default under the Postpetition Credit Agreement, upon the continuance of any other event of default thereunder for six weeks or longer, and upon the occurrence of certain other events under the Receivables Facility.

The Postpetition Credit Agreement includes a commitment fee of 0.5 percent on the unused portion of the Working Capital Facility, and certain other fees. The Postpetition Credit Agreement expires on the earlier of February 28, 1993, the day of the effectiveness of a Reorganization Plan (as defined in the Postpetition Credit Agreement) and the date of the substantial consummation of the Reorganization Plan. The February 28, 1991 order of the Bankruptcy Court approving the Working Capital Facility has been appealed by a party-in-interest. There can be no assurance that the Company will be successful in defending against the appeal. Nor can there be any assurance about what, if any, effect reversal of such order on appeal would have on the Company's liquidity and capital resources.

*Receivables Facility.* Through April 8, 1991, the Company funded its credit card receivables through a credit card receivables securitization facility (the "Credit Card Facility"). This financing was obtained through CHH Commercial Paper, Inc., an unaffiliated, special purpose corporation, which acquired an interest in the Company's credit card receivables from CHH Receivables, Inc., a wholly owned subsidiary of the Company, through the issuance of commercial paper. CHH Receivables, Inc., is not a party to the Filing. At February 2, 1991, the accounts of CHH Receivables, Inc., included in the Consolidated Balance Sheet, consisted principally of accounts receivable of \$667.5 million and receivables based financing of \$633.8 million.



On April 8, 1991, the Bankruptcy Court approved the Receivables Facility, an interim postpetition receivables facility that replaced the Credit Card Facility. Under the Receivables Facility, the Company transferred its receivables to Camelback Funding Corp. ("Camelback") pursuant to a Transfer and Administration Agreement, dated as of March 27, 1991, between the Company and Camelback. Camelback is an entity unaffiliated with the Company. To pay for the receivables, Camelback entered into a Credit Agreement (the "Receivables Credit Agreement"), dated as of March 27, 1991, among Camelback, Chemical Bank and various other lenders named therein (the "Receivables Lenders"). Pursuant to the Receivables Credit Agreement, the Receivables Lenders will allow Camelback to borrow up to \$550.0 million as long as there are outstanding receivables to support such borrowings. The Receivables Lenders have a perfected security interest in the receivables. Camelback pays for the receivables it receives from the Company through (i) funds it obtains from borrowings under the Receivables Credit Agreement and (ii) an increase in an interest owned by the Company representing the difference between (a) the outstanding receivables transferred to the Company and the (b) outstanding borrowings from the Receivables Lenders.

Under the order approving the Receivables Facility, the Bankruptcy Court found that the transfer of the receivables by the Company to Camelback was an arms length sale of the receivables to Camelback. The order also stated that the Receivables Lenders have a perfected security interest in the receivables. The order approving the Receivables Facility has been appealed by a party-in-interest. There can be no assurance that the Company will be successful in defending against the appeal. Nor can there be any assurance about what, if any, effect reversal of such order on appeal would have on the Company's liquidity and capital resources.

#### **Competition**

The retail department store business is highly competitive with respect to both the purchase and sale of merchandise and the acquisition of desirable store locations. Each store competes with similar department stores and with numerous other types of local retail outlets selling apparel and accessories, electronics, furniture, and home furnishings. Many factors enter into the competition for consumers' patronage, including service, price, quality, style, product mix, convenience, and credit availability. Each of the Company's stores has at least one department store competitor nearby.

The Company emphasizes customer service to create a more personal relationship between the customer and sales associate. Appropriate hiring practices, dress codes, and selling standards have been implemented to achieve these aims. Other programs designed to improve customer satisfaction include the installation of laser scanners on most point-of-sale terminals to shorten checkout times and advanced inventory systems to improve store in-stock positions. The Company's credit programs are competitive with other leading stores with which the Company competes for business. Credit terms provide for competitive minimum monthly payments and extended payment programs for big ticket merchandise.

#### **Change in Fiscal Year**

Effective as of February 2, 1991, the Company changed its fiscal year end from the Saturday closest to July 31 to the Saturday closest to January 31. The first fiscal period to conclude after the change comprises the twenty-six week period ended February 2, 1991 (the "Current Period"). The change makes the Company's fiscal year end comparable with that of other major retailers, more accurately reflects the natural cycle of the Company's business and provides a basis for monitoring the Company's operating performance during its Chapter 11 proceedings.



#### **Private Label and Group Purchasing Program**

Group purchasing programs are administered for the benefit of its members, including the Company and other retailers, by AMC, an independent retail consulting, marketing, and merchandising organization. As a member of AMC, the Company has access to the organization's integrated worldwide network of buying offices, domestic market coverage, and research capabilities. Substantially all of the Company's domestic and foreign private label merchandise is also purchased through programs offered by AMC. While all of the Company's foreign purchasing is conducted through AMC, all of its domestic non-private label buying is conducted by Company personnel. The Bankruptcy Court has approved the assumption of the AMC contract, thereby permitting the Company to continue using the services offered by AMC.

#### **Trademarks**

The service marks "The Broadway," "Broadway-Southwest," "The Emporium," "Emporium Capwell" and "Weinstocks" (collectively, the "Marks") have been registered with the United States Patent and Trademark Office. The Company also has rights to several other marks. Except with respect to the Marks as applied to the retail merchandising of goods and services, the Company believes that patents, licenses, trademarks and service marks are not material to its business.

#### **Seasonality**

The department store business is seasonal in nature with a high proportion of sales and earnings generated in November and December. Working capital requirements fluctuate during the year, increasing prior to the holiday season when the Company must carry significantly higher inventory levels.

#### **Employees**

The Company employs approximately 24,000 people on a full or part-time basis, subject to seasonal increases during the holiday season. The Company has union contracts covering approximately 3 percent of the employees of the Company, primarily in two Emporium stores located in San Francisco. The Company considers its relations with its union and non-union employees to be good.

#### **Capital Expansion**

The Broadway-Southern California division opened a 143,000 square foot store in the Paseo Nuevo shopping center in Santa Barbara on August 17, 1990. In addition, on February 22, 1991, The Broadway-Southwest opened a 183,500 square foot store in Paradise Valley, a suburb of Phoenix, Arizona. In light of the Filing, the Company has reduced its capital expenditure programs significantly. Although the Company's postpetition debtor in possession Working Capital Facility and Receivables Facility restrict the Company's ability to make capital expenditures, it is anticipated that capital expenditures will approximate \$35 million during fiscal year ended February 1, 1992. As a result of the Filing, some or all of these expenditures may require Bankruptcy Court approval.

In developing new properties, many of the Company's plans are affected by laws relating to a variety of environmental concerns and are now also subject to Bankruptcy Court approval. Although existing and proposed environmental regulations do not in most cases directly regulate the Company's activities, they could affect transportation systems, land use decisions, and construction of public and private facilities, all of which are relevant to the Company's expansion programs.



#### **Additional Information**

No material part of the Company's business is dependent upon a single customer or a few customers. During the Current Period, the Company had no single retail customer or affiliated group of retail customers to whom sales were made in an amount which accounted for 10 percent or more of the Company's revenues for such period. The Company anticipates purchasing merchandise from thousands of suppliers, no one of which, other than AMC, is expected to be material to the Company. As is customary in the department store industry, the Company, in general, allows merchandise to be returned by customers. Backlog is not a significant part, and research and development activities are not material aspects, of the Company's business. The Company has no material contract with the United States government.

#### **COMPANY OPERATIONS**

##### **General**

Except as noted, the following operational data does not reflect the potential effects of the Company's Chapter 11 proceedings, including the possible closure of certain stores or the possible rejection of prepetition executory contracts, including certain leases, under the relevant provisions of the Bankruptcy Code. The Company is currently undertaking a review of all operational options in light of the Filing. In addition, the following operational data does not reflect the consolidation of the (i) administrative functions of Emporium and Weinstocks, or (ii) the Company's credit and accounts payable operations in a facility to be leased in Tempe, Arizona, each of which has been approved by the Bankruptcy Court. Information relating to Thalhimers, which was sold in the fall of 1990, has also been excluded from the analysis.

##### **The Broadway-Southern California**

The Broadway-Southern California, headquartered in Los Angeles, California, operates 43 stores concentrated in the Los Angeles area and extending from Santa Barbara to San Diego.

The Broadway-Southern California is the leading regional department store company in Southern California in terms of sales, market share, and number of locations, and is seeking to maintain its market position by providing customers with personal service and merchandise assortments that are both fashionable and value oriented.

Since 1986, The Broadway-Southern California has opened three stores, the most recent of which was a store opened in August 1990, in Santa Barbara's newly completed Paseo Nuevo mall. Other than the Westchester store, which was sold effective January 1991, no stores have been closed during the past five years.



## Properties

The location, year of opening, approximate gross square footage, and initial lease or current renewal option expiration date (or a notation that a store is owned by the Company) for each of The Broadway-Southern California stores are set forth below.

<u>Name</u>	<u>Location</u>	<u>Year Opened</u>	<u>Approximate Gross Square Footage</u>	<u>Lease Expiration Date(1)</u>
Baldwin Hills .....	Los Angeles	1947	213,500	Owned/2042(2)
Panorama City .....	Panorama City	1955	217,000	Owned
Anaheim Plaza .....	Anaheim	1955	221,000	2007
Los Altos Center .....	Long Beach	1956	147,000	Owned
Del Amo .....	Torrance	1959	220,500	Owned
Whitwood Mall .....	Whittier	1961	141,000	2006
Grossmont Shopping Center .....	La Mesa	1961	158,000	2015
West Covina Fashion Plaza .....	West Covina	1962	142,000	Owned
Chula Vista Center .....	Chula Vista	1962	206,000	Owned
Buena Ventura Plaza .....	Ventura	1963	157,500	1994
Topanga Plaza .....	Canoga Park	1964	170,000	Owned
Century City .....	Los Angeles	1964	234,000	1995
Stonewood Shopping Center .....	Downey	1965	160,000	Owned/2051(2)
Huntington Center .....	Huntington Beach	1965	160,000	1996
Inland Center .....	San Bernardino	1966	150,000	Owned
Valley Plaza .....	Bakersfield	1967	150,000	1998
Fashion Island .....	Newport Beach	1967	178,500	Owned/2003(2)
Montclair Plaza .....	Montclair	1968	150,500	Owned
Fashion Valley .....	San Diego	1969	183,000	Owned/2005(2)
Tyler Mall .....	Riverside	1970	163,000	2001
Mall of Orange .....	Orange	1971	165,500	Owned/2007(2)
Cerritos Center .....	Cerritos	1971	183,000	2002
Northridge Fashion Center .....	Northridge	1971	183,000	2002
Plaza .....	Los Angeles	1973	262,000	2010
Carson .....	Carson	1973	161,500	2004
Puente Hills .....	City of Industry	1974	161,500	2004
Santa Anita .....	Arcadia	1974	197,500	2009
Laguna Hills .....	Laguna Hills	1975	165,000	2006/2014(3)
Fox Hills .....	Culver City	1975	197,000	2005
Glendale Galleria .....	Glendale	1976	191,000	Owned/2031(2)
Hawthorne Plaza .....	Hawthorne	1977	164,000	2007
Sherman Oaks Fashion Square .....	Sherman Oaks	1977	187,500	Owned
La Jolla .....	San Diego	1977	159,500	Owned
The Oaks .....	Thousand Oaks	1978	162,000	Owned
Brea .....	Brea	1978	154,500	2008
Plaza Camino Real .....	Carlsbad	1979	155,500	2011
Pasadena Plaza .....	Pasadena	1980	158,500	2010
Santa Monica Place .....	Santa Monica	1980	154,000	2012
La Cienega .....	Los Angeles	1982	162,500	2017
Horton Plaza .....	San Diego	1985	135,000	2020
North County Fair .....	Escondido	1986	151,500	Owned/2022(2)
South Coast Plaza .....	Costa Mesa	1986	206,500	2021
Paseo Nuevo .....	Santa Barbara	1990	143,000	Owned/2064(2)

In addition, The Broadway-Southern California operates one distribution facility and two clearance centers in Southern California.

- (1) Initial lease or current renewal option expiration date.
- (2) Owned building subject to ground lease expiring during the year indicated.
- (3) Building and ground lease expiration dates, respectively.



### The Broadway-Southwest

The Broadway-Southwest, headquartered in Phoenix, Arizona, operates 12 department stores located in Arizona, Colorado, Nevada, and New Mexico. In February 1991, a new store was opened in Paradise Valley, a suburb of Phoenix, Arizona. During the past five years, two Broadway-Southwest stores (including the Paradise Valley store) were opened and two stores, located in Colorado, were sold.

### Properties

The location, year of opening, approximate gross square footage, and initial lease or current renewal option expiration date (or a notation that a store is owned by the Company) for each of The Broadway-Southwest stores are set forth below.

<u>Name</u>	<u>Location</u>	<u>Year Opened</u>	<u>Approximate Gross Square Footage</u>	<u>Lease Expiration Date(1)</u>
Christown . . . . .	Phoenix, Arizona	1962	153,000	Owned/2025(2)
Boulevard . . . . .	Las Vegas, Nevada	1966	151,500	Owned/2062(2)
Biltmore Fashion Park . . . . .	Phoenix, Arizona	1968	152,500	Owned/2000(2)
Los Arcos . . . . .	Scottsdale, Arizona	1969	165,500	Owned
Metrocenter . . . . .	Phoenix, Arizona	1973	161,000	2005
Park Mall . . . . .	Tucson, Arizona	1974	161,500	2005
Coronado Center . . . .	Albuquerque, New Mexico	1976	162,500	2006
Meadows . . . . .	Las Vegas, Nevada	1978	158,000	2008
Fiesta Mall . . . . .	Mesa, Arizona	1979	206,500	2010
Tucson Mall . . . . .	Tucson, Arizona	1982	137,500	Owned/2017(2)
Westminster . . . . .	Westminster, Colorado	1986	135,000	Owned
Paradise Valley . . . . .	Paradise Valley, Arizona	1991	183,500	Owned

In addition, The Broadway-Southwest operates one distribution facility and a clearance center, which is located in Phoenix, Arizona. In connection with the Filing, the Company has obtained a Bankruptcy Court order approving the rejection of the lease relating to this clearance center which will be closed during 1991.

(1) Initial lease or current renewal option expiration date.

(2) Owned building subject to ground lease expiring during the year indicated.



## Emporium

Emporium, headquartered in San Francisco, California, operates 22 department stores located predominantly in major shopping centers in the San Francisco Bay Area. During the past five years, one Emporium store was opened, replacing an older store that was converted into a clearance center.

## Properties

The location, year of opening, approximate gross square footage, and initial lease or current renewal option expiration date (or a notation that a store is owned by the Company) for each of the Emporium stores are set forth below.

<u>Name</u>	<u>Location</u>	<u>Year Opened</u>	<u>Approximate Gross Square Footage</u>	<u>Lease Expiration Date(1)</u>
Downtown .....	San Francisco	1896	610,000	Owned
Oakland .....	Oakland	1929	500,000	Owned
Stonestown .....	San Francisco	1952	287,000	Owned
Walnut Creek .....	Walnut Creek	1954	187,000	2005
Stanford .....	Palo Alto	1956	231,000	Owned/2004(2)
Valley Fair .....	Santa Clara	1957	259,000	Owned
El Cerrito .....	El Cerrito	1957	237,500	Owned
Hillsdale .....	San Mateo	1962	220,500	Owned/2012(2)
Marin .....	San Rafael	1964	268,500	2012
Santa Rosa .....	Santa Rosa	1966	213,500	2002
Almaden .....	San Jose	1968	216,500	2015
Mt. View .....	Mt. View	1970	207,000	Owned/2018
Northridge .....	Salinas	1972	179,000	Owned/2071
Tanforan .....	San Bruno	1972	199,500	2003
Hilltop .....	Richmond	1976	203,500	2006
Eastridge .....	San Jose	1978	180,000	2006
Stoneridge .....	Pleasanton	1980	172,000	2012
Sun Valley .....	Concord	1981	181,000	2014
Solano .....	Fairfield	1983	150,000	Owned
Southland Mall .....	Hayward	1983	178,500	2007
Vallco .....	Cupertino	1984	181,000	Owned/2001(2)
Newpark .....	Newark	1987	182,000	Owned

In addition, Emporium operates one distribution facility. The Emporium clearance center, operated in Fremont, California, was closed subsequent to the Current Period end after obtaining a Bankruptcy Court order approving the Company's rejection of the related lease.

(1) Initial lease or current renewal expiration date.

(2) Owned building subject to ground lease expiring in the year indicated.

## Weinstocks

Weinstocks, headquartered in Sacramento, California, operates 12 department stores in California, Utah, and Nevada. Eight of its stores are located in the Sacramento and Central Valley region of California, three in the Salt Lake City, Utah area and one in Reno, Nevada. No stores were opened or closed in the past five years.

On April 22, 1991, the Company announced a plan to consolidate the administrative functions of its Emporium and Weinstocks divisions. The consolidation will involve the closing of Weinstocks' distribution center in Sacramento and the combination of Weinstocks' merchandising and administrative functions with Emporium. The consolidation, which has been approved by the Bankruptcy Court, is expected to be completed by August 1991.



## Properties

The location, year of opening, approximate gross square footage, and initial lease or current renewal option expiration date (or a notation that a store is owned by the Company) for each of the Weinstocks stores are set forth below.

<u>Name</u>	<u>Location</u>	<u>Year Opened</u>	<u>Approximate Gross Square Footage</u>	<u>Lease Expiration Date(1)</u>
Country Club Plaza . . . . .	Sacramento, California	1961	162,500	Owned
Arden Fair . . . . .	Sacramento, California	1961	205,000	Owned
Stockton . . . . .	Stockton, California	1966	130,500	Owned/1997(2)
Reno . . . . .	Reno, Nevada	1967	150,000	1998
Florin . . . . .	Sacramento, California	1967	150,000	Owned
Fresno . . . . .	Fresno, California	1970	163,000	2006
Sunrise . . . . .	Sacramento, California	1972	163,000	2003
Murray . . . . .	Murray, Utah	1974	197,000	2004
Modesto . . . . .	Modesto, California	1977	161,500	2007
Downtown Plaza . . . . .	Sacramento, California	1979	205,500	2011
Salt Lake City . . . . .	Salt Lake City, Utah	1980	147,000	2015
Ogden . . . . .	Ogden, Utah	1980	100,000	2010

In addition, Weinstocks operates one distribution facility and a clearance center located in Sacramento, California.

- (1) Initial lease or current renewal option expiration date.  
(2) Owned building subject to ground lease expiring in the year indicated.

## 1987 RESTRUCTURING

On August 26, 1987, the Company's stockholders approved a plan of restructuring (the "1987 Restructuring") in which the Company was reorganized into two separate companies. The operations of the Company's specialty store divisions, consisting of Bergdorf Goodman, Contempo Casuals and Neiman Marcus, were transferred to The Neiman Marcus Group, a Delaware corporation formed in 1987. The Company continues to operate the department store divisions, consisting of The Broadway-Southern California, The Broadway-Southwest, Emporium, and Weinstocks, and until its sale in December 1990, continued to operate the Thalhimers department store subsidiary.

All public holders of the Company's common stock, par value \$.01 per share (the "Common Stock"), including participants in the Company's profit-sharing plan, retained their Common Stock and received \$17 in cash and a share of common stock in The Neiman Marcus Group for each share of Common Stock held. The convertible preferred shares of the Company (held by General Cinema Corporation) were exchanged for shares in The Neiman Marcus Group. General Cinema Corporation received no cash or Common Stock in respect of its preferred shares. General Cinema did receive cash and common stock of the Neiman Marcus Group for the Common Stock it previously held. Senior management of the Company received no cash or shares of stock of The Neiman Marcus Group in exchange for their existing holdings, except for shares held in the profit-sharing plan, but received instead additional shares of Common Stock. The 1987 Restructuring allowed certain stockholders, including participants in the profit-sharing plan, to elect what cash or securities they would hold after the effective time of the 1987 Restructuring, and incorporated a market formula designed to provide all stockholders with essentially equivalent value. See "ITEM 3. LEGAL PROCEEDINGS" for a discussion concerning a tax dispute between the Company and The Neiman Marcus Group relating to the 1987 Restructuring.



## EXTENSION OF CREDIT

Customers can purchase the Company's merchandise on credit in accordance with revolving credit account terms provided by the Company at all divisions. Revolving credit accounts are assessed a monthly finance charge on balances outstanding more than 30 days. All divisions offer customers short- and long-term revolving charge accounts. The specific terms of the charge account agreements vary among divisions. Short-term revolving charge account terms require customers to make minimum monthly payments generally equal to 10 percent of the balance with a minimum payment of \$15. Long-term revolving charge account terms require a minimum monthly payment generally equal to five percent of the balance at the time of the last purchase with a minimum payment of \$20. The Company considers its payment terms to be comparable with those of its competitors.

For the period January 1985 through February 1991, credit sales accounted for an average of approximately 56 percent of total sales. Changes in the Company's credit policy announced in July 1988 lowered the required minimum monthly payment and made it easier to purchase big ticket items. As of February 2, 1991, short-term revolving charge accounts comprised approximately 82 percent and long-term revolving charge accounts comprised approximately 18 percent of total customer receivables. The following tables reflect selected credit operations data (Thalhimer's data included in all periods through August 4, 1990):

<u>As of</u>	<u>Number of Billed Accounts</u>	<u>Number of Days Credit Sales Outstanding</u>	<u>Average Balance per Billed Account</u>
August 4, 1990 .....	3,980,000	169	\$167
February 2, 1991 .....	3,830,000	141	168

Customer receivables are generally written off when the aggregate of payments made in the last six months is less than one full monthly scheduled payment, or when it is otherwise determined that the account is uncollectible. Credit sales, net write-offs with respect thereto and customer receivable balances for the periods indicated were as follows:

<u>Fiscal Year Ended</u>	<u>Credit Sales</u>		<u>Net Write-Offs</u>		<u>Total Customer Receivables</u>
	<u>Amount</u>	<u>% of Total Sales</u>	<u>Amount</u>	<u>% of Credit Sales</u>	
		(dollar amounts in thousands)			
February 1, 1986 .....	\$1,754,284	56.7%	\$26,252	1.5%	\$638,510
January 31, 1987 .....	1,734,768	53.8	28,555	1.6	499,215
August 1, 1987 (six months ended) .....	651,744	52.0	12,455	1.9	401,857
July 30, 1988 .....	1,509,692	53.2	18,395	1.2	436,868
July 29, 1989 .....	1,772,136	58.5	24,140	1.4	698,621
August 4, 1990 .....	1,781,244	57.3	38,987	2.2	709,167
February 2, 1991 (six months ended) ...	812,424	56.3	17,719	2.2	673,478

Seasonal customer purchasing in November and December produces an increase in credit purchases. As a result, customer receivable balances outstanding and the number of accounts with unpaid balances normally reach their highest levels in December and January.

The Company currently assesses finance charges at a 19.8 percent rate on retail installment accounts in California. California currently has no limitation on the maximum finance charge rates that can be imposed on retail installment accounts. The statute suspending previous limitations on such rates, however, expires on January 1, 1992. Unless this statute is extended or alternative legislation is enacted, California will impose an 18 percent interest rate cap on the first \$1,000 of outstanding balances under retail installment accounts and a 12 percent rate on the balance over \$1,000. Had these limits existed during the past year, the Company's finance charge revenue for the twelve month period ended February 2, 1991 would have been approximately \$8 million lower.



# CAPITALIZATION(1)

The following table sets forth the capitalization of the Company and its consolidated subsidiaries at February 2, 1991 (dollar amounts in thousands):

<b>LONG-TERM SENIOR DEBT</b>	
Receivables based financing (7.5 percent weighted average interest rate)(2) . . . . .	\$ 633,798
Other secured debt	89,663
Term loans due in 1995 (7.6 percent) . . . . .	328,000
10.69 percent notes due 1992-1997 . . . . .	16,000
10.2 percent notes due 1992-1996 . . . . .	9,442
9.9 percent notes due 1991-2010 . . . . .	10,069
Other . . . . .	<u>1,086,972</u>
<b>SUBORDINATED DEBT TO BE SUBJECT TO SETTLEMENT UNDER REORGANIZATION PROCEEDINGS (3)</b>	
12.25 percent notes due 1996 . . . . .	125,000
12.5 percent debentures due 1998-2002 . . . . .	225,000
Unamortized debt acquisition costs . . . . .	<u>(9,751)</u>
<b>CAPITAL LEASE OBLIGATIONS (excluding current maturities of \$2,890) . . . . .</b>	<b>62,116</b>
<b>SHAREHOLDERS' EQUITY</b>	
Common Stock--100 million \$.01 par value shares authorized; 30,369,000 shares outstanding (4) . . . . .	303
Other Paid-in Capital (5) . . . . .	643,252
Accumulated Deficit . . . . .	<u>(916,182)</u>
	<u>(272,627)</u>
<b>TOTAL CAPITALIZATION . . . . .</b>	<b><u>\$1,216,710</u></b>

- (1) For a more detailed description of the effect of the Filing on the Company's debt obligations, reference should be made to this item at "General -- Chapter 11 Reorganization."
- (2) The Company funded its credit card activities through a credit card receivables securitization facility which provided for CHH Commercial Paper, Inc., a special purpose corporation not affiliated with the Company, to acquire interests in the Company's credit card receivables, through the issuance of commercial paper. The term of the facility was for the three-year period ending December 1991. Subsequent to the Filing, the Company replaced the Credit Card Facility with the \$550.0 million Receivables Facility.
- (3) As a result of the Filing, the outstanding Subordinated Debt has been classified with "Liabilities to be Subject to Settlement under Reorganization Proceedings" and is disclosed net of unamortized debt acquisition costs. In accordance with Bankruptcy Accounting Requirements, subsequent to the Petition Date, the Company has ceased accruing interest and amortizing debt acquisition costs relating to this debt.
- (4) Common Stock outstanding does not include 3.5 million shares reserved under the employee stock incentive plans and .4 million shares reserved for purchase by the Profit Sharing Plan.
- (5) As further described in the Employee Stock Incentive Plans section of the Financial Review to the Consolidated Financial Statements, Shareholders' Equity at February 2, 1991 reflects a \$9.2 million reduction for outstanding non-recourse notes issued in connection with the exercise of Stock Purchase Rights.



## ITEM 2. PROPERTIES

At May 1, 1991, the square footage used in the Company's operations was as follows:

	Owned	Owned subject to ground lease	Leased	Total
Stores . . . . .	5,139,000	3,129,500	8,322,000	16,590,500
Distribution centers and other facilities . . . . .	2,444,500	-	453,500	2,898,000

The Company conducts certain operations in leased retail stores, clearance centers, distribution centers, offices, and other facilities. Leases are generally for periods of up to 30 years, with renewal options for substantial periods. Such leases are generally at fixed rental rates, except that certain leases provide for additional rental payments based on sales in excess of predetermined levels.

The Company can reject executory contracts, including real property leases, under the relevant provisions of the Bankruptcy Code. Rejection of an executory contract or lease constitutes a breach of that contract immediately before the date of the filing of the petition and gives the nondebtor party the right to assert a claim against the Company for damages arising out of the breach which shall be allowed or disallowed as if such claim had arisen before the date of the filing of the petition. In connection with the Company's Chapter 11 proceedings, the Company currently is reviewing all of its lease obligations.

For additional information related to the Company's properties, see "ITEM 1. BUSINESS -- Company Operations."

## ITEM 3. LEGAL PROCEEDINGS

### Commencement of Chapter 11 Proceedings

General. On February 11, 1991, the Company filed a petition for relief under Chapter 11 of the Bankruptcy Code in the United States Bankruptcy Court for the Central District of California, Case No. LA 91-64140-JD. The ability of the Company to effect a successful reorganization under Chapter 11 will depend, in significant part, upon the Company's ability to formulate a confirmable reorganization plan that is approved by the Bankruptcy Court and meets the standards for plan confirmation under the Bankruptcy Code. In a Chapter 11 reorganization plan, the rights of the Company's creditors and stockholders may be substantially altered. Creditors may realize substantially less than the full face amount of their claim. Equity interests of the Company's stockholders may be diluted or even canceled. Investment in any public security of the Company, therefore, should be regarded as highly speculative. It is impossible at this time to predict the actual recovery, if any, that different classes of creditors and stockholders might ultimately realize.

The following summary sets forth certain aspects of the Company's Chapter 11 case. This summary is not intended to be an exhaustive summary. For additional information regarding the effect of the Chapter 11 case on the Company, reference should be made to the Bankruptcy Code.

Chapter 11 Reorganization Under the Bankruptcy Code. Pursuant to section 362 of the Bankruptcy Code, the commencement of the Company's Chapter 11 case operates as a stay, applicable to all entities, of the following: (i) commencement or continuation of a judicial, administrative, or other proceeding against the Company that was or could have been commenced prior to commencement of the Company's Chapter 11 case, or to recover for a claim that arose before the commencement of the Company's Chapter 11 case; (ii) enforcement of any judgments against the Company that arose before the commencement of the Company's Chapter 11 case; (iii) the taking of any action to obtain possession of property of the Company or to exercise control over property of the Company; (iv) the creation, perfection or enforcement of any lien against the property of the Company; (v) the taking of any action to collect, assess or recover a claim against the Company that arose before the



commencement of the Company's Chapter 11 case; or (vi) the setoff of any debt owing to the Company that arose prior to the commencement of the Company's Chapter 11 case against a claim held by such creditor or party-in-interest against the Company that arose before the commencement of the Company's Chapter 11 case. Any entity may apply to the Bankruptcy Court for relief from the automatic stay so that it may enforce any of the aforesaid remedies that are automatically stayed by operation of law at the commencement of the Company's Chapter 11 case.

On February 20, 1991, the United States Trustee appointed the Unsecured Creditors' Committee, which is the sole committee appointed in the case, to represent the interests of all unsecured creditors whose claims arose before the Petition Date. On March 21, 1991, the Bankruptcy Court denied a motion of certain parties-in-interest to appoint a separate committee to represent the interests of creditors who hold the Company's outstanding publicly traded debentures and notes. No other committees have been appointed in the Company's Chapter 11 case.

Although the Company is authorized to operate its business as debtor in possession, it may not engage in transactions outside the ordinary course of business without first complying with the notice and hearing provisions of the Bankruptcy Code and obtaining Bankruptcy Court approval. The Unsecured Creditors' Committee may review and object to transactions involving the Company that are outside of the ordinary course of the Company's business, may consult with the Company concerning the administration of the Company's Chapter 11 case, and may participate in the formulation of a plan of reorganization. The Company is required to pay certain expenses of the Unsecured Creditors' Committee, including counsel and other professional fees, to the extent allowed by the Bankruptcy Court.

As debtor in possession, the Company has the right, under the relevant provisions of the Bankruptcy Code, to assume or reject executory contracts, including real property leases. Certain parties to such executory contracts with the Company, including parties to such real property leases, may file motions with the Bankruptcy Court seeking to require the Company to affirm or reject those contracts or leases. In this context, "assumption" means that the Company cures, or provides adequate assurance that it will cure, all existing defaults under the contract or lease and provides adequate assurance of future performance under the contract or lease. "Rejection," which is a remedy available under the relevant provisions of the Bankruptcy Code, means that the Company is relieved from its obligations to perform further under the contract or lease. Rejection of an executory contract or lease constitutes a breach of that contract immediately before the date of the filing of the petition and gives the nonddebtor party the right to assert a claim against the bankruptcy estate for damages arising out of the breach which shall be allowed or disallowed as if such claim had arisen before the date of the filing of the petition.

Prepetition claims that were contingent, unliquidated, or disputed as of the commencement of the Chapter 11 case, including, without limitation, those that arise in connection with rejection of executory contracts, may be allowed or disallowed depending on the nature of the claim. Such claims may be fixed by the Bankruptcy Court or otherwise settled or agreed upon by the parties.

Under the Bankruptcy Code, an allowed claim of a creditor that is secured by a lien on property of the Company's estate, or that is subject to a valid right of setoff, is a secured claim to the extent of the value of such creditor's interest in the estate's interest in such property, or to the extent of the amount subject to setoff, as the case may be, and is an unsecured claim to the extent that the value of such creditor's interest or the amount so subject to setoff is less than the amount of such allowed claim. Generally, claims for unmatured interest are not allowable. To the extent that an allowed secured claim is secured by property whose value, after recovery of the reasonable, necessary costs and expenses of preserving or disposing of such property, is greater than the amount of such claim, the holder of such claim generally is allowed interest on such claim and any reasonable fees, costs or charges provided for under the agreement under which such claim arose.



**Plan of Reorganization - Procedures.** For 120 days after the Petition Date, the Company has the exclusive right to propose and file a plan of reorganization with the Bankruptcy Court. If the Company files a plan of reorganization during the 120-day exclusivity period, no other party may file a plan of reorganization until 180 days after the Petition Date, during which period the Company has the exclusive right to solicit acceptance of the plan. If the Company fails to file a plan during the 120-day exclusivity period or such additional time period ordered by the Bankruptcy Court (the "Exclusivity Period") or, after such plan has been filed, fails to obtain acceptance of such plan from impaired classes of creditors and equity security holders during the exclusive solicitation period or such additional time period ordered by the Bankruptcy Court, any party-in-interest, including a creditor, an equity security holder, a committee of creditors, or an indenture trustee, may file a plan of reorganization in the Chapter 11 proceedings. Additionally, if the Bankruptcy Court were to appoint a Chapter 11 trustee, any party-in-interest may file a plan, regardless of whether any additional time remains in the Company's Exclusivity Period.

Given the magnitude of the Company's operations and the number of interested parties possessing claims against or interests in the Company, the plan formulation process in the Company's Chapter 11 case is complex. Accordingly, the Company has filed a motion with the Bankruptcy Court to extend the Exclusivity Period through March 31, 1992. Such extensions are often sought and granted in large Chapter 11 cases. There can be no assurance, however, that such an extension will be granted in this Chapter 11 case. Nor can there be any assurance about what effect, if any, denial of such motion would have on the ability of the Company to formulate a plan of reorganization.

The Company filed with its Chapter 11 petition a list containing the names and addresses of its known creditors. The Company will, within the time periods set by the Bankruptcy Court, file with the Bankruptcy Court schedules of assets and liabilities and other schedules and statements of affairs as required by the Bankruptcy Rules and by the Local Rules of the Bankruptcy Court. Section 501 of the Bankruptcy Code allows any creditor or indenture trustee to file a proof of claim with the Bankruptcy Court and any equity security holder to file a proof of interest with the Bankruptcy Court. A claim or interest, proof of which is filed under Bankruptcy Code section 501, is deemed allowed, unless a party-in-interest (including the Company) objects thereto. If an objection is made to the allowance of a claim, the Bankruptcy Court, after notice and hearing, will determine the amount, validity, and priority of such claim. The last date for filing proofs of claim or proofs of interest has not yet been established by order of the Bankruptcy Court.

After a plan has been filed with the Bankruptcy Court, it will be sent, with a disclosure statement approved by the Bankruptcy Court after notice and hearing, to members of all classes of impaired creditors and equity security holders for acceptance or rejection. Following acceptance or rejection of any plan by impaired classes of creditors and equity security holders, the Bankruptcy Court at a noticed hearing would consider whether to confirm the plan. Among other things, to confirm a plan the Bankruptcy Court is required to find that (i) each holder of a claim or interest of an impaired class of creditors and equity security holders either has accepted the plan or will receive or retain under the plan on account of such claim or interest property of a value, as of the effective date of the plan, that is not less than the amount that such holder would so receive or retain if the Company were liquidated under chapter 7 of the Bankruptcy Code on such date, (ii) if a class of claims is impaired under the plan, at least one class of claims that is impaired under the plan has accepted the plan, and (iii) confirmation of the plan is not likely to be followed by the liquidation or need for further financial reorganization of the Company or any successor, unless such liquidation or reorganization is proposed in the plan.



If at least one class of claims that is impaired under the plan has accepted the plan, and certain other requirements of the Bankruptcy Code relating to plan confirmation are satisfied, the proponent of the plan may invoke the so-called "cramdown" provisions of section 1129(b) of the Bankruptcy Code. Under these provisions, the Bankruptcy Court, on request of the proponent of the plan, shall confirm the plan if the plan does not discriminate unfairly, and is fair and equitable, with respect to each class of claims or interests that is impaired under, and has not accepted, the plan. As used in the Bankruptcy Code, the phrases "discriminate unfairly" and "fair and equitable" have narrow and specific meanings. A "cramdown" might result in holders of the Company's Common Stock receiving no property or other value for their equity security interests. Because of this and other possibilities, the value of the Company's public securities, including the Common Stock, is highly speculative.

#### Other Legal Proceedings

The Company and The Neiman Marcus Group entered into a Tax Allocation Agreement (the "Agreement") in connection with the 1987 Restructuring. Under the Agreement, The Neiman Marcus Group is responsible for the payment of certain taxes that are, or may become, payable as a result of the transition rules of the Tax Reform Act of 1986, as they relate to installment sales, bad debt reserves, and inventory capitalization attributable to the specialty store business for periods prior to the 1987 Restructuring. The Neiman Marcus Group disputed their potential obligation of approximately \$24 million for taxes arising under the Agreement. This includes approximately \$14 million reflected by the Company in current accounts receivable and \$10 million which would be payable to The Neiman Marcus Group if they prevailed. On April 14, 1989, the Company commenced litigation, in the Delaware Chancery Court, seeking a declaration of The Neiman Marcus Group's obligation for such taxes as they become due. In response, The Neiman Marcus Group counter claimed to recover approximately \$6 million relating to the treatment of other taxes under the Agreement and disputed their obligation to pay \$2 million of such taxes reflected by the Company in current accounts receivable. In the opinion of management, the outcome of this litigation will not have a material impact on the Company's financial position, although no assurances can be given in this regard. As a result of the Filing, The Neiman Marcus Group's counterclaims against the Company have been stayed.

In addition, the Company is a defendant in certain other legal actions that have also been stayed as a result of the Filing. In the opinion of management, the disposition of these actions will not have a material adverse effect upon the Company's financial position or results of operations.



#### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not Applicable.

### PART II

#### ITEM 5. MARKET FOR THE REGISTRANT'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS

(a) Information with respect to the principal market on which the Company's common stock is traded and the range of high and low closing market prices for each quarterly period during the past 2-1/2 years is set forth under "Closing Market Price Ranges of Common Stock" on page 69.

(b) There were 23,064 holders of record of shares of common stock of the Company as of April 15, 1991.

(c) The Company has not declared dividends during the 2-1/2 years ended February 2, 1991. The Company's subordinated debt agreements restrict the payment of cash dividends unless the consolidated net worth of the Company exceeds \$600.0 million. In addition, the Bankruptcy Code prohibits the Company's payment of cash dividends without the Bankruptcy Court's prior approval.

#### ITEM 6. SELECTED FINANCIAL DATA

Information with respect to the Company's selected financial data is set forth under "Five Year Financial Summary" on page 70.

#### ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Information with respect to management's discussion and analysis is set forth under "Management's Discussion and Analysis of Financial Condition and Results of Operations" on page 35.

#### ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The consolidated financial statements and supplementary data are as set forth in the "Index to Financial Statements" on page 32.

#### ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.



### PART III

#### ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

##### DIRECTORS

The name, age, principal occupation for the last five years, selected biographical information, period of previous service as a director of the Company, and the number of shares of stock of the Company owned on April 15, 1991 for each director are set forth on the following pages. The principal occupations listed, refer to positions with the Company unless otherwise noted. The number of shares owned are those "beneficially owned", as determined under rules of the Securities and Exchange Commission, and the information is not necessarily indicative of beneficial ownership for any other purpose. Under such rules, beneficial ownership includes any shares as to which the director has sole or shared voting power or investment power and also any shares (the "Option Shares") which the director has the right to acquire within 60 days of April 15, 1991, through the exercise of any option, warrant or right, through conversion of any security, or pursuant to the automatic termination or power of revocation of a trust, discretionary account, or similar arrangement.

The Company's Restated Certificate of Incorporation provides for three classes of directors serving staggered three-year terms. The term for (1) Messrs. Barker, Hecht, McGraw, Miller, and Stanfill expire at the 1992 Annual Meeting; (2) Messrs. Carter, DuBain, Hale, and Petersen expire at the 1993 Annual Meeting and (3) Mrs. Ahmanson, and Messrs. Burnside, Gerken, and Hawley expire at the 1994 Annual Meeting.

##### CAROLINE LEONETTI AHMANSON

*Director since 1987*

*Age: 73*

*Stock owned: 10,000 shares of Common Stock*

*Member of:*

*Compensation, Nominating  
and Public Policy Committees*

Mrs. Ahmanson has been Chairman of the Board of Caroline Leonetti Ltd., a woman's center for self-improvement since 1945 and has for more than the past 20 years been engaged in numerous civic, philanthropic, and charitable affairs. From 1982 to 1984 she served as Chairman of the Federal Reserve Bank of San Francisco of which she is now former Chairman. She is also a director of The Walt Disney Company.

##### NORMAN BARKER, JR.

*Director since 1970*

*Age: 68*

*Stock owned: 3,000 shares of Common Stock*

*Member of:*

*Executive, Audit and  
Compensation Committees*

Mr. Barker is former Chairman of the Board of First Interstate Bank of California and Vice Chairman of the Board of First Interstate Bankcorp. From January 1985 through December 1985, he served as Chairman of the Board of First Interstate Bank, Ltd. He is also a director of Pacific Telesis Group, Southern California Edison Company, Pacific American Income Shares, First Interstate Bank of California, TCW Convertible Securities, Inc., American Health Properties, Inc., First Executive Corporation, and SPI Pharmaceuticals, Inc.

##### WALDO H. BURNSIDE

*Director since 1980*

*Age: 62*

*Stock owned: 776,279 shares of Common Stock (including 473,620 Option Shares)*

*Member of:*

*Executive Committee*

Mr. Burnside is retired President and Chief Operating Officer. He is also a director of Security Pacific Corporation and its subsidiary, Security Pacific National Bank.



**EDWARD W. CARTER**

Director since 1946

Age: 79

Stock owned: 101,727 shares of Common Stock

Member of:  
Executive Committee

Mr. Carter is Chairman of the Board Emeritus and served as Chairman of the Board from 1972 to 1983.

**MYRON DU BAIN**

Director since 1987

Age: 67

Stock Owned: 10,000 shares of Common Stock

Member of:  
Audit, Nominating  
and Public Policy Committees

Mr. Du Bain is Chairman and Chief Executive Officer, Retired of Fund American Companies, Inc. He was Chairman of the Board of SRI International from December 1985 to December 1989. He is a director of California Biotechnology, Inc., First Interstate Bankcorp, Pacific Telesis Group, Pottlatch Corporation, and Transamerica Corporation.

**WALTER B. GERKEN**

Director since 1977

Age: 68

Stock Owned: 3,000 shares of Common Stock

Member of:  
Executive, Compensation,  
Nominating and Public Policy Committees

Mr. Gerken is Chairman of the Executive Committee of Pacific Mutual Life Insurance Company. Until September 1987 he served as Chairman of the Board and until September 1986 he was also Chief Executive Officer of that company. He is also a director of Whittaker Corporation, The Times Mirror Company, and Southern California Edison Company.

**PRENTIS C. HALE**

Director since 1949

Age: 80

Stock Owned: 202,319 shares of Common Stock

Member of:  
Public Policy Committee

Mr. Hale is former Chairman of the Board. He was Chairman of the Executive Committee from 1972 to 1983 and Chairman of the Board from 1951 to 1972. He is also a director of Datron Systems, Inc.

**PHILIP M. HAWLEY**

Director since 1970

Age: 65

Stock owned: 1,319,060 shares of Common Stock (including 795,413 Option Shares)

Member of:  
Executive Committee

Mr. Hawley is Chairman of the Board and Chief Executive Officer. He is also a director of American Telephone and Telegraph Company, Atlantic Richfield Company, BankAmerica Corporation, Johnson & Johnson, and Weyerhaeuser Company.



**H. MICHAEL HECHT**

*Director since 1991*

*Age: 51*

*Stock owned: 236,615 shares of Common Stock (including 99,643 Option Shares)*

Mr. Hecht became President in February 1991. From April 1990 to February 1991 he was Executive Vice President and from March 1986 to February 1991 he was also Chairman and Chief Executive Officer of The Broadway-Southern California.

**LELAND C. McGRAW**

*Director since 1989*

*Age: 66*

*Stock owned: 2,000 shares of Common Stock*

*Member of:  
Audit, Compensation  
and Public Policy Committees*

Mr. McGraw is Retired Vice President, Finance and Chief Financial Officer of Chevron Corporation. From January 1988 to November 1989 he was Vice President, Finance and Chief Financial Officer and from April 1985 to December 1987, he was Corporate Vice President, Information Technology of that company.

**DONN B. MILLER**

*Director since 1974*

*Age: 61*

*Stock owned: 1,000 shares of Common Stock*

*Member of:  
Executive Committee*

Mr. Miller is a partner in the Los Angeles-based law firm of O'Melveny & Myers. He is also a director of Pacific Mutual Life Insurance Company, Security Pacific Corporation and its subsidiary, Security Pacific National Bank.

**SIDNEY R. PETERSEN**

*Director since 1989*

*Age: 60*

*Stock owned: 5,000 shares of Common Stock*

*Member of:  
Audit, Nominating and  
Compensation Committees*

Mr. Petersen is the retired Chairman of the Board and Chief Executive Officer of Getty Oil Company, positions which he held from 1980 to 1984. He is also a director of Avery International Corporation, Adobe Resources Corporation, NICOR, Inc., and Union Bank.

**DENNIS C. STANFILL**

*Director since 1987*

*Age: 64*

*Stock owned: 2,500 shares of Common Stock*

*Member of:  
Executive, Audit and  
Compensation Committees*

Mr. Stanfill is Chairman, Chief Executive Officer and a director of AME, Inc. Until August 1990, he was President of Stanfill, Bowen & Co., Inc., a private investment and venture capital firm. He is also a director of The Dial Corporation.



# **EXECUTIVE OFFICERS OF THE COMPANY**

The following is a list of names and ages of all of the executive officers of the Company indicating all positions and offices with the Company held by each such person, each such person's principal occupations or employment during the past five years, and the expiration of each such person's term of office.

<u>Name</u>	<u>Age</u>	<u>Office</u>	<u>Term Expiration(1)</u>
Philip M. Hawley . . . . .	65	Chairman of the Board and Chief Executive Officer	July 31, 1993
H. Michael Hecht . . . . .	51	President	July 31, 1993
Robert A. Dourian . . . . .	58	Executive Vice President	July 31, 1993
John M. Gailys . . . . .	49	Executive Vice President	July 31, 1993
Edwin J. Holman . . . . .	44	Executive Vice President	July 31, 1993
Brian L. Fleming . . . . .	47	Senior Vice President	July 31, 1993
Larry G. Petersen . . . . .	43	Senior Vice President	July 31, 1993
Robert J. Rieland . . . . .	60	Chairman and Chief Executive Officer of The Broadway-Southern California	July 31, 1993
Barbara Bass . . . . .	40	President and Chief Executive Officer of the Emporium	September 30, 1992
Carol F. Greer . . . . .	48	President and Chief Executive Officer of The Broadway-Southwest	July 31, 1993

(1) The Company has entered into employment contracts with term expirations as indicated. Under the Bankruptcy Code, these employment contracts are considered executory contracts that the Company may assume with Bankruptcy Court approval. The Company has not yet decided whether to assume these employment contracts.



Philip M. Hawley has served as Chairman and Chief Executive Officer of the Company since 1983.

H. Michael Hecht was appointed President of the Company in February 1991. From April 1990 to February 1991, he served as Executive Vice President. In addition, he served as Chairman and Chief Executive Officer of The Broadway-Southern California division of the Company from 1986 to February 1991.

Robert A. Dourian was appointed Executive Vice President of the Company in August 1990. From 1986 to August 1990, he was Executive Vice President, Personnel of The Broadway-Southern California division of the Company. He was previously employed by IBM since before 1986.

John M. Gailys has served as Executive Vice President, Finance and Operations of the Company since 1984 and also as Chief Financial Officer of the Company since 1985.

Edwin J. Holman was appointed Executive Vice President of the Company in January 1991. From 1985 to 1991, he served as Senior Vice President, Operations of the Company.

Brian L. Fleming was appointed Senior Vice President, Accounting and Taxes of the Company in October 1987. From April 1985 to October 1987, he served as Vice President, Accounting of the Company.

Larry G. Petersen was appointed Senior Vice President, Planning of the Company in October 1987. From April 1985 to October 1987, he served as Vice President, Planning and Analysis of the Company.

Robert J. Rieland was appointed Chairman and Chief Executive Officer of The Broadway-Southern California division of the Company in January 1991. From April 1989 to December 1990, he served as President and Chief Executive Officer of Thalheimer Brothers, Inc., formerly a subsidiary of the Company. He was previously employed by Miller and Rhoads since before 1986.

Barbara Bass was appointed President and Chief Executive Officer of the Emporium division of the Company in October 1989. From January 1987 to May 1988, she was Chief Executive Officer of I. Magnin. She was previously employed by Bloomingdales since before 1986.

Carol F. Greer was appointed President and Chief Executive Officer of The Broadway-Southwest division of the Company in July 1990. She was previously employed by Rich's Department Stores since before 1986.



# ITEM 11. EXECUTIVE COMPENSATION

Executive compensation data relates to the Current Period only. Such data for the fiscal year ended August 4, 1990, was reported in the Company's 1990 Annual Meeting Proxy Statement which was incorporated by reference into the Company's Fiscal 1990 Form 10-K filing.

## CASH COMPENSATION

The following table sets forth information as to the five most highly compensated executive officers of the Company and the total cash compensation paid to all executive officers as a group during the Current Period:

<u>Name of Individual Or Persons in Group(1)</u>	<u>Capacities in Which Served</u>	<u>Cash Compensation(2)(3)</u>
Philip M. Hawley .....	Chairman of the Board and Chief Executive Officer	\$375,000
Waldo H. Burnside .....	President and Chief Operating Officer	300,000
H. Michael Hecht .....	Executive Vice President	250,000
Barbara Bass .....	President and Chief Executive Officer of the Emporium	225,000
John M. Gailys .....	Executive Vice President	217,500
Executive Officers as a group (13 persons) including those listed above .....		2,642,055

- (1) Executive officers included for this purpose are: Chairman of the Board, President, Executive Vice Presidents, certain Senior Vice Presidents and division Chief Executive Officers. Mr. Burnside and two other Executive Vice Presidents, included in the table above, retired in February 1991. Mr. Hecht replaced Mr. Burnside as President in February 1991.
- (2) Includes only amounts paid during the Current Period as salary, bonuses, and cash compensation paid to certain executive officers for relocation purposes during the period in which they served as executive officers of the Company.
- (3) The Company has entered into employment contracts with each of the named individuals. The contracts provide for, among other things, a fixed term, rates of compensation, and in some cases, supplementary pensions, death benefits, and disability payments. In some instances, the Company and the employee may extend the contract for additional annual terms after the expiration of the original term. Mr. Hawley's employment contract, originally entered into February 1, 1970, expires July 31, 1993 and provides for a base salary of \$750,000 per year. Mr. Hecht's employment contract, originally entered into on February 1, 1981, expires July 31, 1993 and provides for a base salary of \$550,000. Ms. Bass' employment contract, originally entered into on October 4, 1989, expires September 30, 1992 and provides for a base salary of \$450,000. Mr. Gailys' employment contract, originally entered into on September 1, 1984, expires July 31, 1993 and provides for a base salary of \$435,000 per year. The Company has also entered into employment contracts with 6 other current executive officers. These contracts each have multi-year terms, may be extended for additional annual terms and provide for base salaries ranging from \$250,000 to \$450,000. Under the Bankruptcy Code, these employment contracts are considered executory contracts which the Company may assume with Bankruptcy Court approval. The Company has not yet decided whether to assume these employment contracts.

The amounts shown in the cash compensation table include compensation which has been deferred pursuant to the Company's deferred compensation plan, but do not include amounts received during the Current Period on compensation deferred from prior periods.



The amounts shown in the cash compensation table do not include other personal benefits where the incremental cost to the Company of such personal benefits does not exceed the lesser of \$25,000 or 10 percent of the cash compensation for each person named, or in the case of the group, does not exceed \$25,000 multiplied by the number of executives or 10 percent of the cash compensation for the group.

Mr. Hawley and Mr. Hecht, as employees of the Company, receive no additional compensation for serving on the Board or for attending Board or Committee meetings. Directors who are not employees of the Company receive \$22,000 per year plus \$750 for any Board or Committee meeting attended. Directors may elect to defer all or part of these fees to later years. The amounts deferred may be placed in a cash credit account to which amounts equivalent to interest are credited or in stock credit accounts. No shares of Common Stock are distributed under this plan and participants have no rights as stockholders by virtue of their participation in this plan. This deferred compensation plan has been suspended while the Company is in Chapter 11. Directors who are not employees of the Company also receive a discount on purchases made at the Company's stores.

#### COMPENSATION PURSUANT TO EMPLOYEE BENEFIT PLANS

*The Profit Sharing Plan.* The Company maintains the Profit Sharing Plan for Employees of Carter Hawley Hale Stores, Inc. (the "Profit Sharing Plan") under which 14,800 employees are eligible and 11,400 employees participate. Participating employees who are not highly compensated employees for purposes of Section 414(q) of the Internal Revenue Code of 1986, as amended, may elect to contribute from 2 percent to 12 percent of their compensation in whole percentages. Participating employees who are highly compensated employees may only elect to contribute from 2 percent to 6 percent of their compensation in whole percentages. However, in no case may any employee contribute more than \$3,475 in any calendar year. Employee contributions are made by salary reductions. In addition, the Company annually contributes an amount that is at least equal to 25 percent of the participants' contributions for the plan year. Such amounts historically have been utilized to purchase shares of Common Stock that were allocated to the accounts of participating employees, and that may not be withdrawn except in the event of termination of employment or certain other events. Shares of Common Stock purchased pursuant to participating employee's salary reduction elections were fully (100 percent) vested at all times and shares of Common Stock purchased with the Company's contributions became vested as follows: 20 percent after three years of vesting service and 20 percent for each year of vesting service thereafter, so that a participant became fully vested in stock purchased with Company contributions after 7 years of vesting service. The Trustee under the Profit Sharing Plan, Bank of America NT & SA, is the record owner of all shares of Common Stock held in the Profit Sharing Plan, although participants are entitled to vote shares of Common Stock allocated to their accounts by instructing the Trustee. Employee contributions to the Profit Sharing Plan have been suspended due to the Company's Chapter 11 proceedings. In addition, as of the Petition Date, all active employees became 100 percent vested in the Company contributions allocated to their accounts.

The amount of Company contributions used to purchase shares of Common Stock which were credited to Profit Sharing Plan accounts during the Current Period and which are fully vested are: \$2,047 for Mr. Hawley; \$2,047 for Mr. Burnside; \$2,047 for Mr. Hecht, none for Ms. Bass; \$317 for Mr. Gailys; and \$16,409 for all executive officers as a group.

*Deferred Compensation Plans.* During the Current Period, the Company maintained three deferred compensation plans for its employees, the 1976 Deferred Compensation Plan, the Management Deferred Compensation Plan and the Deferred Compensation Plan for Executives.



Under each of these plans, eligible employees, which includes 586 key employees of the Company, are entitled to defer, to later years, receipt and taxation of up to 50 percent of salary. The amounts deferred are placed in a cash credit account to which amounts equivalent to interest are credited. Deferrals under the 1976 Deferred Compensation Plan and the Deferred Compensation Plan for Executives, which were placed in stock credit accounts, continue to be credited with amounts equivalent to dividends on that stock. No shares of Common Stock have been distributed under these plans and participants have no rights as stockholders by virtue of their participation in such plans. Employee deferrals under these plans have been suspended during the Company's Chapter 11 proceedings. In connection with the 1987 Restructuring, The Neiman Marcus Group agreed to guarantee the payment of benefits under these deferred compensation plans which had accrued prior to the effective date of the 1987 Restructuring.

*Long-Term Incentive Compensation Plan, Nonqualified Stock Option Plan and 1985 Stock Incentive Plan.* Approximately 165 key executives of the Company hold stock options under the Company's Long-Term Incentive Compensation Plan (the "Long-Term Plan"), Nonqualified Stock Option Plan (the "Nonqualified Plan") and 1985 Stock Incentive Plan (the "1985 Plan") (collectively, the "Stock Option Plans"). These stock options were issued at an exercise price equal to the market price of the Common Stock on the date of grant of the option. Pursuant to the 1987 Restructuring, each of the Stock Option Plans were amended to provide that, with respect to active employees of the Company, each outstanding stock option held immediately prior to the 1987 Restructuring was converted into an option only for Common Stock, with the number of shares of Common Stock and exercise prices relating to such stock options adjusted to reflect the trading prices of the Common Stock and The Neiman Marcus Group common stock after the 1987 Restructuring. Such stock options may be exercised by the payment of cash or by a loan, in the discretion of the Compensation Committee, up to ten years from the date of grant in accordance with a schedule determined by the Compensation Committee.

No stock options or other awards have been granted under the Stock Option Plans following the 1987 Restructuring. No stock options were exercised during the current year by any executive officers.

*1987 Stock Incentive Plan.* As part of the 1987 Restructuring, the stockholders approved the 1987 Stock Incentive Plan (the "1987 Plan"). The 1987 Plan authorizes the Compensation Committee to grant to eligible employees of the Company stock options (with or without related limited stock appreciation rights), restricted stock awards and stock purchase rights with respect to an aggregate of up to 2,250,000 shares of Common Stock. Such grants can be made at any time through and including March 31, 1997.

Stock options may be exercised (i) by payment of cash or (ii) in the discretion of the Compensation Committee, by delivery of restricted or unrestricted shares of Common Stock, or (iii) by means of a loan. The stock options granted under the 1987 Plan are non-statutory stock options. Shares of Common Stock issued under restricted stock awards are issued to an employee without any payment to the Company, and vesting in the stock awarded is subject to the holder's continued employment with the Company for specified periods of time. Stock purchase rights give to recipients the right to purchase shares of Common Stock at their fair market value on the purchase date (with respect to initial awards granted as of the effective time of the 1987 Restructuring, in which case the fair market value was deemed to be equal to the Trading Price of Department Shares during the Adjustment Period as defined in the Proxy Statement/Prospectus of the Company dated July 28, 1987). Payment upon exercise of a stock purchase right may be by cash or a loan for a term of up to six years, with or without recourse against the participant, and shall be in an amount up to but not exceeding the purchase price less the par value of the shares of Common Stock purchased.



In connection with the exercise of stock purchase rights, the five individuals named in the Cash Compensation table and certain other current executive officers executed non-recourse notes to the Company dated as of August 27, 1987 with an interest rate of 8.2 percent per annum and six-year terms. In these transactions, Mr. Hawley purchased 110,000 shares of Common Stock and executed a note for \$1,501,775; Mr. Burnside purchased 75,000 shares of Common Stock and executed a note for \$1,023,937; Mr. Gailys purchased 40,000 shares of Common Stock and executed a note for \$546,100; and Mr. Hecht purchased 30,000 shares and executed a note for \$409,575. Ms. Bass purchased 30,000 shares on February 20, 1990 and executed a non-recourse note for \$172,200 with an interest rate of 7.9 percent per annum. Certain other current executive officers purchased a total of 37,000 shares of Common Stock and executed notes totalling in the aggregate \$505,143. Interest accrues on these notes and is payable in full when the principal is payable. All of these notes are presently outstanding. All shares issued upon exercise of the stock purchase rights are being held by the Company as collateral for the notes. To date no payments have been made on any of these notes.

During the Current Period, there were no grants of restricted stock, stock purchase rights or stock options under the 1987 Plan to any executive officers.

**Pension Plans.** The Company maintains a Pension Plan under which all employees, other than employees covered by pension plans of applicable labor unions, are eligible to participate after a certain period of service. The Company makes annual contributions to the Pension Plan based upon the funding standards of the Employee Retirement Income Security Act of 1974, as amended. Benefits for the approximately 14,800 eligible employees were based, through June 30, 1989, on a percentage of each participant's total wages, salaries, and bonuses paid in a year. Benefits for periods accruing on and after July 1, 1989 have been determined under a formula which will be determined after pending federal tax regulations are finalized. Earnings for purposes of the Pension Plan do not include any amounts that may be deferred under the deferred compensation plans and amounts earned under the Profit Sharing Plan. Benefits accrued by each participant become fully vested after five years and are payable to the participant only upon such participant's retirement or other termination of employment. As a result of the Filing, contributions to the Pension Plan, including those which came due or related to periods prior to the Filing, cannot be made without Bankruptcy Court approval. On May 13, 1991, the Bankruptcy Court approved a Pension Plan contribution of approximately \$5.2 million for the plan year ended June 30, 1990. The Company intends to request authority from the Bankruptcy Court to make additional contributions as they have or may become due.

In addition, the Company also maintains a supplemental executive retirement plan (the "SERP") that presently covers approximately 321 executive employees including those employees whose annual base salary rate is \$71,800 or more and those previously eligible, who were grandfathered. Such annual base salary rate is indexed to the social security wage base and is, therefore, adjusted annually. Benefits are based on a percentage of average compensation for the five highest of the final ten years of employment, less 50 percent of age 65 social security benefits and less benefits paid under the Pension Plan and certain supplemental payments under individual employment contracts. For the purpose of the SERP, earnings include any amounts which may be deferred under the deferred compensation plans. Benefits generally are computed on a straight life annuity basis. However, for certain executives who have individual employment contracts providing for supplemental payments, the benefits are on a life annuity basis with an unreduced two-thirds benefit to a surviving spouse. Payments under the SERP are currently suspended due to the Company's Chapter 11 proceedings. In connection with the 1987 Restructuring, The Neiman Marcus Group agreed to guarantee the payment of benefits under the SERP which had accrued prior to the effective date of the 1987 Restructuring.



The following table sets forth total pension benefits payable to executive employees covered by the SERP, including the five most highly compensated executive officers. Benefits shown on the table include benefits from all Company-provided pension plans plus 50 percent of estimated social security benefits at age 65. Benefits are reduced if they begin prior to age 62. The estimated years of credited service at age 65 are 32 for Mr. Hawley; 14 for Mr. Burnside; 28 for Mr. Gailys; 29 for Mr. Hecht and 26 for Ms. Bass.

#### ANNUAL PENSION BENEFITS

Compensation	Years of Service			
	15	20	25	30 or more
\$100,000 .....	\$ 25,000	\$ 33,333	\$ 41,667	\$ 50,000
200,000 .....	50,000	66,667	83,333	100,000
300,000 .....	75,000	100,000	125,000	150,000
400,000 .....	100,000	133,333	166,667	200,000
500,000 .....	125,000	166,667	208,333	250,000
600,000 .....	150,000	200,000	250,000	300,000
700,000 .....	175,000	233,333	291,667	350,000
800,000 .....	200,000	266,667	333,333	400,000



## ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

As of April 15, 1991, except for Messrs. Hawley and Burnside, who owned 4.0 percent and 2.3 percent, respectively, including Option Shares, no director beneficially owned in excess of 1 percent of the outstanding shares of Common Stock.

The following table furnishes information as of April 15, 1991, as to each person known to the Company to be the beneficial owner of more than 5 percent of the outstanding shares of Common Stock and all directors and officers as a group.

<u>Name and Address<sup>(1)</sup></u>	<u>Number of Shares Beneficially Owned</u>	<u>Type of Security</u>	<u>Percent of Class<sup>(2)</sup></u>
McCullough, Andrews & Cappiello, Inc. . . . . 101 California Street, #4250 San Francisco, California 94111	2,720,400 <sup>(3)</sup>	Common	8.2%
All officers and directors as group (42) persons . .	4,271,005 <sup>(4)</sup>	Common	12.9

- (1) The Profit Sharing Plan holds 14,547,254 shares of Common Stock, representing 43.9 percent of the shares of Common Stock outstanding including shares of Common Stock subject to options granted under the Company's stock option plans which are exercisable within 60 days of April 15, 1991 (the "Option Shares"). Bank of America NT & SA, in its capacity as Trustee under the Profit Sharing Plan, has disclaimed beneficial ownership of such shares. Participants in the Profit Sharing Plan exercise voting power and limited power of disposition over the shares allocated to their respective accounts in the Profit Sharing Plan. Allocated shares as to which the Trustee has not received voting instructions from such participants are not voted. Shares unallocated to participants' accounts are voted by the Trustee in the same proportion as allocated shares are voted by the Trustee pursuant to instructions by participants in the Profit Sharing Plan.
- (2) Outstanding shares include 2,734,895 Option Shares granted under the Company's stock option plans to certain employees including officers and directors. All of such options are exercisable within 60 days of April 15, 1991.
- (3) McCullough Andrews & Cappiello, Inc. has informed the Company that it is the beneficial owner of 2,720,400 shares of Common Stock, which constitutes approximately 8.2 percent of the outstanding shares of Common Stock including Option Shares. McCullough, Andrews & Cappiello, Inc. reports that it has sole voting power and sole investment power with respect to all 2,720,400 shares beneficially owned.
- (4) All officers and directors included within the group have sole voting and investment power with respect to these shares, except with respect to 1,927,314 Option Shares. All of such options are exercisable within 60 days of April 15, 1991.

## ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

See "ITEM 11. EXECUTIVE COMPENSATION," regarding employment contracts with executive officers and non-recourse promissory notes executed by executive officers in connection with the exercise of stock purchase rights under the 1987 Plan. In September 1990, the Company made a loan of \$104,000 to Mr. John M. Gailys, Executive Vice President and Chief Financial Officer of the Company.



**PART IV**

**ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K**

(a) The following documents are filed as part of this report:

(1) Financial Statements

The consolidated financial statements of the Company are set forth on the "INDEX TO FINANCIAL STATEMENTS" on page 32.

(2) Financial Statement Schedules

Financial Statement Schedules, except those indicated on the "INDEX TO FINANCIAL STATEMENTS" on page 32, have been omitted because the required information is included in the financial statements or financial review, or the amounts are not significant.

(3) Exhibits

Exhibits are as set forth in the "INDEX TO EXHIBITS" on page 72.

(b) Reports on Form 8-K

The following report on Form 8-K was filed with the Securities and Exchange Commission during the quarter ended February 2, 1991:

Date of Report

December 14, 1990

Item Reported

Completion of the Stock Purchase Agreement entered into between the Company and The May Department Store Company (May) for the purchase by May of Thalimer Brothers, Incorporated, a wholly-owned subsidiary of the Company.



## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on the 1st day of May, 1991.

CARTER HAWLEY HALE STORES, INC.

By: P. M. HAWLEY  
P. M. Hawley  
Chairman and Chief Executive Officer

## POWER OF ATTORNEY

Each person whose signature appears below hereby authorizes John M. Gailys, Brian L. Fleming, and James L. Vandeberg, and each and any of them, as attorneys-in-fact and agents, with full powers of substitution, to sign on his or her behalf, individually and in the capacities stated below, and to file any and all amendments to this Annual Report on Form 10-K with the Securities and Exchange Commission, granting to said attorneys-in-fact and agents full power and authority to perform any other act on behalf of the undersigned required to be done in the premises.

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>P. M. HAWLEY</u> P. M. Hawley	Chairman of the Board And Director (Principal Executive Officer)	May 1, 1991
<u>JOHN M. GAILYS</u> John M. Gailys	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	May 1, 1991
<u>BRIAN L. FLEMING</u> Brian L. Fleming	Senior Vice President, Accounting and Taxes (Principal Accounting Officer)	May 1, 1991
<u>CAROLINE L. AHMANSON</u> Caroline L. Ahmanson	Director	May 1, 1991



<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>NORMAN BARKER, JR.</u> Norman Barker, Jr.	Director	May 1, 1991
<u>WALDO H. BURNSIDE</u> Waldo H. Burnside	Director	May 1, 1991
<u>EDWARD W. CARTER</u> Edward W. Carter	Director	May 1, 1991
<u>MYRON DU BAIN</u> Myron Du Bain	Director	May 1, 1991
<u>WALTER B. GERKEN</u> Walter B. Gerken	Director	May 1, 1991
<u>PRENTIS C. HALE</u> Prentis C. Hale	Director	May 1, 1991
<u>H. MICHAEL HECHT</u> H. Michael Hecht	Director	May 1, 1991
<u>LELAND C. MCGRAW</u> Leland C. McGraw	Director	May 1, 1991
<u>DONN B. MILLER</u> Donn B. Miller	Director	May 16, 1991
<u>SIDNEY R. PETERSEN</u> Sidney R. Petersen	Director	May 1, 1991
<u>DENNIS C. STANFILL</u> Dennis C. Stanfill	Director	May 1, 1991



CARTER HAWLEY HALE STORES, INC.

INDEX TO FINANCIAL STATEMENTS

	<u>Page</u>
Report of Independent Accountants .....	33
Consent of Independent Accountants .....	34
Management's Discussion and Analysis of Financial Condition and Results of Operations .....	35
Consolidated Financial Statements	
Consolidated Statement of Earnings .....	40
Consolidated Balance Sheet .....	41
Consolidated Statement of Cash Flows .....	42
Consolidated Statement of Common Stock and Other Shareholders' Equity ...	43
Summary of Significant Accounting Policies .....	44
Financial Review .....	47
Financial Statement Schedules	
Schedule II--Accounts Receivable from Related Parties .....	61
Schedule V--Property and Equipment .....	62
Schedule VI--Accumulated Depreciation and Amortization of Property and Equipment .....	63
Schedule VIII--Valuation and Qualifying Accounts and Reserves .....	64
Schedule IX--Short-Term Borrowings .....	65
Schedule X--Supplementary Income Statement Information .....	66
Quarterly Information .....	67
Five Year Financial Summary .....	70



## REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Shareholders of  
Carter Hawley Hale Stores, Inc.

In our opinion, the consolidated financial statements listed in the index appearing on page 32 present fairly, in all material respects, the financial position of Carter Hawley Hale Stores, Inc. and its subsidiaries at February 2, 1991 and August 4, 1990, and the results of their operations and their cash flows for the twenty-six week period ended February 2, 1991, and for each of the three fiscal years in the period ended August 4, 1990, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

As described in the Reorganization and Basis of Reporting section of the Summary of Significant Accounting Policies, on February 11, 1991 the Company filed a petition for reorganization relief under Chapter 11 of the Bankruptcy Code. Management continues to operate the Company as a debtor in possession while a plan of reorganization is formulated. The plan of reorganization will be subject to approval by creditors and shareholders and will require confirmation by the Bankruptcy Court. The accompanying financial statements have been prepared using accounting principles applicable to a going concern, which assumes realization of assets and settlement of liabilities in the normal course of business. The uncertainties inherent in the bankruptcy process raise substantial doubt about the Company's ability to continue as a going concern in its present form. In connection with the bankruptcy proceedings, the Company may sell or otherwise dispose of assets and liquidate or settle liabilities for amounts other than those reflected in the accompanying consolidated financial statements. As discussed under the Reorganization and Basis of Reporting section of the Summary of Significant Accounting Policies, the Company has accrued certain costs associated with asset dispositions related to the bankruptcy. Additional liabilities may arise as a result of claims filed by parties affected by the Company's rejection of executory contracts and from the determination by the Bankruptcy Court of allowed claims for contingencies and other disputed amounts. The financial statements do not give effect to such additional adjustments to the carrying value of assets, or amounts and classification of liabilities that might be necessary as a consequence of the bankruptcy proceedings.

As discussed in the Changes in Accounting Policies section of the Summary of Significant Accounting Policies, the Company changed its method of accounting for pension obligations in fiscal 1990, its method of accounting for income taxes in fiscal 1989 and its method of accounting for certain indirect costs incurred in the acquisition of merchandise inventories in fiscal 1988. We concur with the changes in accounting.

PRICE WATERHOUSE

Los Angeles, California  
May 22, 1991



#### CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Prospectus of Carter Hawley Hale Stores, Inc. constituting part of: (1) Post-effective Amendment No. 15 to Registration Statement on Form S-8 (No. 2-42202), (2) Post-effective Amendment No. 9 to Registration Statement on Form S-8 (No. 2-68101), (3) Post-effective Amendment No. 7 to Registration Statement on Form S-8 (No. 2-68102), (4) Post-effective Amendment No. 3 to Registration Statement on Form S-8 (No. 2-98321), (5) Post-effective Amendment No. 2 to Registration Statement on Form S-8 (No. 33-16178), and (6) Post-effective Amendment No. 4 to Registration Statement on Form S-8 (No. 33-18846) of our report dated May 22, 1991 appearing on page 33 of this Form 10-K.

PRICE WATERHOUSE

Los Angeles, California  
May 22, 1991



## CARTER HAWLEY HALE STORES, INC.

### Management's Discussion and Analysis of Financial Condition and Results of Operations

#### FINANCIAL CONDITION

##### *Reorganization*

At August 4, 1990, the Company's working capital was \$843.4 million including \$14.2 million in cash. In December 1990, the Company completed the sale of Thalhimers Brothers, Inc. ("Thalhimer's"). In connection with the sale, the Company received \$317.0 million, of which \$187.8 million was utilized to extinguish debt secured by Thalhimer's assets and stock. The remaining funds were utilized for general corporate purposes.

Retail industry sales during the period from August 4, 1990 were significantly affected by the generally weak economic environment and uncertainties associated with the Middle East crisis. Concerns related to the general direction of the economy coupled with the January 15, 1991 deadline related to the Middle East military crisis reduced holiday sales for the retail industry to the lowest levels in recent years. As a result, the Company's sales performance during the fall season, on a comparative store basis was less than the prior year and the expectations for the period.

The Company's liquidity problems worsened due to changes in the retail business. In response to the general decline in holiday retail sales, the retail industry experienced a general tightening of trade credit terms. This, together with the increasing concern about the Company's ability to satisfy its debt service requirements, significantly restricted the Company's ability to obtain new financing to replace its working capital facility following the sale of Thalhimer's.

In response to its deteriorating liquidity position, the Company on February 11, 1991, filed for protection from its creditors under Chapter 11 of the United States Bankruptcy Code. The bankruptcy filing prevents the Company's prepetition creditors from enforcing their prepetition claims. While in Chapter 11, the Company will formulate a plan of reorganization. Until the plan of reorganization is confirmed by the Bankruptcy Court, payments of prepetition liabilities will be limited to those payments approved by the Bankruptcy Court. As a result, the Company has received temporary relief from satisfying substantially all of its liabilities as of February 10, 1991. Outstanding financing under the Company's receivables securitization facility, however, is presented as a secured claim. Such financing was obtained through CHH Commercial Paper, Inc., an unaffiliated, special purpose corporation, which acquired interests in the Company's credit card receivables from CHH Receivables, Inc., a wholly owned subsidiary of the Company, funded by the issuance of commercial paper. CHH Receivables, Inc., is not a party to the Filing. The Company's new receivables facility, approved by the Bankruptcy Court on April 8, 1991, replaced the receivables securitization facility.

Under Chapter 11, the Company will continue to manage its affairs and operate its business as debtor in possession while it develops a reorganization plan. Generally, a reorganization plan must be confirmed by the Bankruptcy Court and submitted to a vote of the Company's creditors and stockholders for their approval. The Company has the exclusive right to propose a plan of reorganization for the first 120 days of the Chapter 11 proceedings. That time period may be extended by the Bankruptcy Court. Given the magnitude of the Company's operations and the number of parties-in-interest possessing claims that must be resolved in the Chapter 11 proceedings, the plan formulation process is complex. Accordingly, the Company has filed a motion with the Bankruptcy Court to extend the exclusivity period through March 31, 1992. Such extensions are often sought and granted in large Chapter 11 cases. There can be no assurance, however, that such an extension will be granted. Nor can there be any assurance about what, if any, effect denial of such a motion would have on the ability of the Company to formulate a plan of reorganization.



In order to, among other things, enhance its ability to monitor the Company's performance during the Chapter 11 proceedings, the Company elected on March 17, 1991, to change its fiscal year end to the Saturday closest to January 31. The first fiscal period to conclude after this change comprises the twenty-six weeks ended February 2, 1991 (the "Current Period"). The January year end will facilitate comparisons between the Company and its competitors, most of which have similar fiscal periods, and best reflects the natural cycle of the Company's business.

#### *Liquidity and Capital Resources*

The Filing substantially limited certain of the Company's traditional liquidity resources. In connection with the Chapter 11 proceeding, however, the Company entered into a debtor in possession financing package with Chemical Bank. The package provides for aggregate financing of \$800.0 million, consisting of a \$250.0 million unsecured revolving working capital facility and a \$550.0 million accounts receivable based facility. The Bankruptcy Court has entered orders approving these facilities. Certain of these orders have been appealed. The financing provided by this package will be utilized for the acquisition of merchandise and for other corporate purposes. The Company believes that the financing will provide sufficient liquidity to satisfy the Company's requirements.

The general reestablishment of trade credit terms subsequent to the Filing, coupled with the automatic stay that arose on the Petition Date, resulted in a short-term improvement in the Company's liquidity. This benefit will be eliminated as the Company begins cash payments for postpetition merchandise.

In addition to short-term borrowings, the Company will rely on cash flows from operations to fund its short-term liquidity requirements. Based on current economic indicators and factors related to the Company's Chapter 11 proceedings, the Company anticipates a sales decline and substantial reorganization expenses during the fiscal year ending February 1, 1992. These factors are expected to restrict cash provided by operations.

As a result of the Filing, the Company's capital expenditure programs have been significantly reduced. Capital expenditures will be financed through a combination of funds generated from operations, property financings and other borrowings. Capital expenditures for new store space, store modernization, support facilities, and equipment were \$38.0 million during the Current Period as compared to \$28.2 million in the comparable prior year period. During the Current Period one Broadway-Southern California store was opened. In addition, the Company opened a Broadway-Southwest store during February 1991. The Company anticipates making capital expenditures of approximately \$35 million during the fiscal year ending February 1, 1992.

#### **RESULTS OF OPERATIONS**

##### **Overview**

The results of operations for the Current Period and the three-year period ended August 4, 1990 include certain non-recurring or unusual charges. The loss from operations for the Current Period of \$73.5 million compares to income from operations of \$16.7 million during the twenty seven weeks ended February 3, 1990. The Current Period loss includes a charge of \$47.0 million for costs associated with certain regional consolidation programs and a charge of \$40.0 million for estimated costs associated with certain store and facility closings resulting from the Chapter 11 proceedings. The LIFO inventory method resulted in a charge of \$4.7 million in the Current Period as compared to \$2.0 million in the comparable prior year period. In addition, the results for the prior year period include an additional week of operations based upon the Company's fiscal period.



The loss from operations of \$9.5 million in 1990 compares to income from operations of \$7.4 million and \$9.3 million in 1989 and 1988, respectively. The 1990 results from operations include a charge of \$22.2 million for the effect of the LIFO inventory method as compared to \$.3 million in 1989 and \$4.8 million in 1988. The 1990 decision to consolidate certain corporate buying programs and the 1989 transfer of administration of group buying programs to Associated Merchandising Corp., an independent retail organization, resulted in charges of \$12.1 million and \$6.0 million in 1990 and 1989, respectively. The results from operations for 1988 include \$28.5 million for costs associated with operational and facilities realignment programs.

The charges noted above were partially offset by certain non-recurring or unusual credits. The results for the Current Period include a gain of \$30.0 million related to the sale of Thalhimers.

In fiscal 1990, the Company recognized interest income of \$12.7 million related to the settlement of certain Internal Revenue Service examinations. In addition, the results from operations include gains of \$7.3 million and \$30.0 million related principally to sales of interest in shopping centers in 1990 and 1988, respectively.

Excluding the effects of LIFO and the unusual items identified above, earnings before interest expense and income taxes were \$46.0 million for the Current Period as compared to \$121.5 million during the comparable 1990 period. For the fiscal year ended August 4, 1990, the earnings before interest and income taxes excluding the effects of LIFO and the other unusual items identified above was \$177.1 million as compared to \$179.1 million and \$154.4 million in 1989 and 1988, respectively.

#### *Sales*

Sales during the Current Period decreased 19.8 percent as compared to the comparable 1990 period. The decrease is largely attributable to Thalhimers sales that were included in the prior year period. In addition, the prior year period comprises 27 weeks compared with 26 weeks in the Current Period. On a comparable store and period basis, sales for the Current Period decreased 3.5 percent as compared to the comparable 1990 period. The current year sales reflect the impact of the generally weak retail environment including the impact of the unusually slow holiday sales. In addition, uncertainty about the Company's liquidity resulted in a restriction of shipments from certain vendors. The reduction in receipts of merchandise impacted the Company's inventory levels and sales performance during the 1990 holiday season.

Sales for fiscal 1990 were \$2.9 billion, an increase of 2.5 percent as compared to 1989. The sales were adversely impacted by the closure of the downtown Oakland Emporium store, which sustained significant damage during the October 1989 earthquake and did not reopen until August 1990. Excluding the sales for the Oakland store, total sales increased 3.8 percent and comparative store sales increased 2.0 percent as compared to the prior year. Sales for 1989 increased 6.5 percent to \$2.8 billion as compared to 1988, a comparative store increase of 5.6 percent.

#### *Costs and Expenses*

Cost of goods sold as a percent of sales was 74.7 percent for the Current Period as compared to 72.1 percent for the comparable 1990 period. The generally weak economic conditions and high competitive environment during the fall season resulted in a significant increase in markdowns during the Current Period.



Cost of goods sold as a percent of sales for the fiscal year ended August 4, 1990 was 73.0 percent as compared to 71.8 percent in 1989. The increase in the percentage was the result of the significant inflation effect in 1990 on the LIFO method of inventory valuation and an increase in markdowns in response to an increasingly competitive retail market. During 1989 and 1988, cost of goods sold as a percentage of sales was 71.8 percent.

Selling, general, and administrative expenses decreased \$46.8 million from \$339.0 million in the 27 weeks ended February 3, 1990 to \$292.2 million in the Current Period reflecting the sale of Thalhimers, the impact of cost reduction programs put into place in November 1990, and the inclusion of an additional week in the comparable prior year period. These factors were partially offset by the effects of the stores opened during the Current Period and inflation. As a percentage of sales, costs increased 1.6 percent to 22.2 percent in the Current Period compared to 20.6 percent in the prior year period. The increase in selling, general, and administrative expenses as a percentage of sales reflects the effect of lower sales during the Current Period.

Selling, general, and administrative expenses as a percent of sales decreased to 21.6 percent in fiscal 1990 as compared to 21.8 percent in 1989. This improvement resulted from increased finance charge revenue from the Company's credit card operations, which was partially offset by increases in selling and sales promotion expense, in response to increased competitive pressures, and increases in bad debt expense, related to the changes in the Company's customer accounts receivable portfolio. Selling, general, and administrative expense as a percentage of sales decreased .7 percent to 21.8 percent in 1989 from 22.5 percent in 1988. The decrease was primarily attributable to increased finance charge revenue resulting from the Company's credit card operations.

#### *Interest Expense*

Interest expense for the Current Period was \$71.0 million, a decrease of \$16.6 million as compared to the comparable 1990 period. The reduction reflects interest for debt directly related to Thalhimers, which was sold in December 1990, and the effect of reduced borrowings and generally lower interest rates.

Interest expense for 1990 was \$174.2 million, an increase of 8.7 percent as compared to 1989. The increase was attributable to increased borrowings required to finance increases in receivables generated by the Company's credit card operations. The increase in interest expense of \$24.7 million or 18.2 percent in 1989 as compared to 1988 was also attributable to increased borrowings required to finance increases in customer receivables generated by the Company's credit card operations.

#### *Income Taxes*

For the Current Period, the Company recorded an income tax benefit based on an effective rate of 15.2 percent. The benefit of \$13.2 million was affected by limitations on the Company's ability to utilize net operating loss carryforwards. The Company's ability to recognize an income tax benefit for net operating losses in future periods will be subject to similar limitations. As a result, the Company anticipates the tax benefit for future net operating losses will be minimal. The income tax benefit during the Current Period compares to an income tax provision of \$11.1 million, based on an effective rate of 40 percent, for the comparable prior year period. The 1990 provision was based on the projected effective rate for the fiscal year ended August 4, 1990.

For the fiscal year ended August 4, 1990, the Company recorded an income tax benefit of \$2.0 million at an effective rate of 17.4 percent as compared to an income tax provision of \$5.0 million in 1989 at an effective rate of 40.3 percent and a provision of \$6.2 million in 1988 at an effective rate of 40.0 percent. The 1990 tax benefit was reduced as a result of the effect of state income taxes for which there are limited operating loss carryovers.



### *Net Earnings*

The net loss for the Current Period of \$87.6 million, or a loss of \$3.04 per share, compares to net income of \$6.2 million, or \$.26 per share, for the comparable prior year period. The Current Period net loss includes an extraordinary charge of \$14.1 million, net of tax, resulting from the early extinguishment of debt. Net income for the comparable prior-year period includes an extraordinary charge of \$10.5 million, net of tax, for the estimated uninsured loss resulting from the October 1989 earthquake.

The net loss for 1990 of \$26.0 million, or \$1.03 per share, compares to net earnings of \$13.5 million or \$.62 per share in 1989. The 1990 net loss includes an extraordinary charge of \$16.5 million, net of tax, related to the uninsured loss associated with the October 1989 earthquake. This loss includes physical damage related to and business interruption resulting from the earthquake. Net earnings for 1989 include an extraordinary charge of \$9.2 million, net of tax, for the write-off of unamortized costs primarily associated with the early retirement of debt in conjunction with the establishment of the Company's accounts receivable securitization facility. The 1989 extraordinary charge was offset by a credit of \$15.3 million, net of tax, resulting from a change in the method of accounting for income taxes resulting from the adoption of Statement of Financial Accounting Standards No. 96 "Accounting for Income Taxes." Net earnings for 1989 decreased by \$4.2 million from \$17.7 million or \$.72 per share in 1988. The 1988 net earnings included an extraordinary charge of \$1.7 million, net of tax, related to the early retirement of debt, offset by a credit of \$10.1 million, net of tax, resulting from a change in accounting for inventory costs.

### *Inflation*

The effect of inflation on the Company's sales is, in the opinion of management, most closely approximated by the Department Store Inventory Price Index published by the Bureau of Labor Statistics. This index increased 1.2 percent during the Current Period as compared to an increase of 0.7 percent in the comparative prior year period. For 1990, the index increased 3.0 percent as compared to 1.3 percent in 1989 and 3.3 percent in 1988.

### *Recent Accounting Pronouncement*

The Financial Accounting Standards Board issued Statement No. 106 "Employers' Accounting for Postretirement Benefits Other Than Pensions" in December 1990. The statement focuses principally on postretirement health care benefits and requires a change from the prevalent pay-as-you-go cash basis accounting method to a requirement to accrue the present value of such benefits over the expected service period of the related employees. The Statement is generally effective for fiscal years beginning after December 15, 1992.

The Company currently accounts for postretirement health care benefits on a cash basis. Based upon the current plan provisions, the Company estimates that it would have to recognize an obligation of approximately \$35 million on adoption of the Statement. The obligation could be fully recognized in the statement of earnings as the effect of an accounting change in the year of adoption or over a period of time, which for the Company is expected to be in the range of 15 to 20 years.



CARTER HAWLEY HALE STORES, INC.

Consolidated Statement of Earnings

(In thousands, except per share data)	Twenty-Six Weeks Ended	Twenty-Seven Weeks Ended	Year Ended		
	February 2, 1991	February 3, 1990 (Unaudited)	August 4, 1990 (53 weeks)	July 29, 1989 (52 weeks)	July 30, 1988 (52 weeks)
Sales	\$1,318,565	\$1,643,635	\$2,857,819	\$2,787,393	\$2,617,143
Cost of goods sold, including occupancy and buying costs	985,018	1,185,210	2,085,344	2,001,188	1,879,664
Selling, general, and administrative expenses	292,241	338,967	617,580	607,441	587,869
Interest expense	71,046	87,598	174,234	160,344	135,600
Provision for consolidation programs	47,000		(12,700)		
Gain on sale of Thalhimers	(30,000)				
Other (income) expense		4,150	4,831	6,000	(1,500)
Earnings (loss) from operations before reorganization item and income taxes	(46,740)	27,710	(11,470)	12,420	15,510
Reorganization item Provision for store closings	40,000				
Earnings (loss) from operations before income taxes	(86,740)	27,710	(11,470)	12,420	15,510
Income taxes	(13,200)	11,050	(2,000)	5,000	6,200
Earnings (loss) before extraordinary items and cumulative effect of changes in accounting	(73,540)	16,660	(9,470)	7,420	9,310
Extraordinary items					
Costs related to early retirement of debt, net of income tax benefit of \$1,300, \$6,200 and \$1,210	(14,070)			(9,250)	(1,750)
Earthquake loss, net of income tax benefit of \$7,000 and \$11,000		(10,500)	(16,500)		
Cumulative effect of changes in accounting					
Income taxes				15,300	
Capitalization of inventory costs, net of income tax expense of \$10,440					10,100
Net earnings (loss)	(87,610)	\$ 6,160	\$ (25,970)	\$ 13,470	\$ 17,660
Earnings (loss) per common share					
Operations	\$ (2.55)	\$ .70	\$ (.37)	\$ .34	\$ .33
Extraordinary items					
Early retirement of debt	(.49)			(.42)	(.08)
Earthquake loss		(.44)	(.66)		
Changes in accounting					
Income taxes				.70	
Capitalization of inventory costs					.47
	\$ (3.04)	\$ .26	\$ (1.03)	\$ .62	\$ .72

See accompanying Summary of Significant Accounting Policies and Financial Review.



**CARTER HAWLEY HALE STORES, INC.**

**Consolidated Balance Sheet**

(In thousands)	February 2, 1991	August 4, 1990
<b>Assets</b>		
Current assets		
Cash	\$ 33,131	\$ 14,221
Restricted cash deposits	45,437	
Accounts receivable, net	699,961	745,883
Merchandise inventories	355,449	550,433
Other current assets	<u>20,086</u>	<u>26,681</u>
	1,154,064	1,337,218
Property and equipment, net	511,690	596,324
Other assets	<u>89,667</u>	<u>111,652</u>
	<u>\$1,755,421</u>	<u>\$2,045,194</u>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities		
Notes payable and current installments	\$ 2,890	\$ 43,721
Accounts payable	29,961	317,549
Accrued liabilities	133,654	125,573
Current income taxes	9,477	6,662
Deferred income taxes	<u>-</u>	<u>299</u>
	175,982	493,804
Liabilities to be subject to settlement under reorganization proceedings	598,650	
Receivables based financing	633,798	678,646
Other long-term debt	453,174	872,687
Capital lease obligations	62,116	67,110
Other liabilities	82,503	96,877
Deferred income taxes	21,825	29,890
Shareholders' Equity		
Common stock, \$.01 par value	303	298
Other paid-in capital	643,252	638,210
Accumulated deficit	<u>(916,182)</u>	<u>(832,328)</u>
	<u>(272,627)</u>	<u>(193,820)</u>
	<u>\$1,755,421</u>	<u>\$2,045,194</u>

See accompanying Summary of Significant Accounting Policies and Financial Review.



**CARTER HAWLEY HALE STORES, INC.**

**Consolidated Statement of Cash Flows**

(In thousands)	Twenty-Six Weeks Ended February 2, 1991	Twenty-Seven Weeks Ended February 3, 1990 (Unaudited)	Year Ended August 4, 1990 (53 weeks)	Year Ended July 29, 1989 (52 weeks)	Year Ended July 30, 1988 (52 weeks)
Operating activities					
Earnings (loss) from operations	\$ (73,540)	\$ 16,660	\$ (9,470)	\$ 7,420	\$ 9,310
Adjustments to reconcile earnings (loss) from operations to net operating cash flows					
Depreciation and amortization	21,836	27,603	50,995	52,956	51,829
Earthquake costs			(27,500)		
Gain on sale of Thalhimers	(30,000)				
Gains on asset sales			(7,298)		(30,000)
Deferred income taxes	(19,091)		(514)	(2,947)	(22,900)
Change in operating assets and liabilities, net of effect of sale of Thalhimers					
Restricted cash deposits	(45,437)				
Accounts receivable, net	(81,843)	(146,843)	8,272	(272,479)	72,993
Merchandise inventories	94,300	21,826	12,081	(25,858)	(103,790)
Accounts payable and accrued liabilities	29,452	(67,736)	(28,452)	(12,920)	40,149
Receivables securitization deposits		(10,345)	(15,472)	(10,134)	
Other, net	2,882	(16,157)	(18,529)	(12,270)	8,279
Net cash provided (used) by operating activities	<u>(101,441)</u>	<u>(174,992)</u>	<u>(35,887)</u>	<u>(276,232)</u>	<u>25,870</u>
Investing activities					
Proceeds from sale of Thalhimers	317,000				
Purchases of property and equipment	(37,989)	(28,219)	(83,220)	(75,849)	(80,205)
Proceeds from asset sales, net of effect of sale of Thalhimers	619		5,747	4,892	34,199
Net cash provided (used) by investing activities	<u>279,630</u>	<u>(28,219)</u>	<u>(77,473)</u>	<u>(70,957)</u>	<u>(46,006)</u>
Financing activities					
Increase (decrease) in receivables based financing	(44,848)	135,360	26,214	301,432	202,000
Other issuances of long-term debt		20,000	37,182	87,215	798,630
Increase (decrease) in notes payable	(40,000)		40,000	(27,000)	(510,000)
Retirements of long-term debt and capital lease obligations	(71,665)	(6,162)	(53,904)	(13,755)	(115,054)
Costs relating to early retirements of long-term debt, net of items not requiring cash outlay	(5,113)			(974)	(1,750)
Issuances of common stock	2,347	44,697	50,562	3,155	4,587
Restructuring dividend					(346,464)
Preferred stock dividend					(2,055)
Net cash provided (used) by financing activities	<u>(159,279)</u>	<u>193,895</u>	<u>100,054</u>	<u>350,073</u>	<u>29,894</u>
Net increase (decrease) in cash	18,910	(9,316)	(13,306)	2,884	9,758
Cash at the beginning of the period	<u>14,221</u>	<u>27,527</u>	<u>27,527</u>	<u>24,643</u>	<u>14,885</u>
Cash at the end of the period	<u>\$ 33,131</u>	<u>\$ 18,211</u>	<u>\$ 14,221</u>	<u>\$ 27,527</u>	<u>\$ 24,643</u>

See accompanying Summary of Significant Accounting Policies and Financial Review.



**CARTER HAWLEY HALE STORES, INC.**

**Consolidated Statement of Common Stock and Other Shareholders' Equity**

(In thousands)	Common Stock		Other Paid-in Capital	Accumulated Deficit
	Shares	Par Value		
Balance, August 1, 1987	20,367	\$ 101,837	\$ 174,404	\$(130,469)
Net earnings				17,660
Cash dividends on redeemable preferred stock				(2,055)
Restructuring dividend				(346,464)
Change in common stock par value		(101,633)	101,633	
Conversion of redeemable preferred stock to common and preferred stock of The Neiman Marcus Group			298,987	
Distribution of net assets of The Neiman Marcus Group				(350,438)
Net issuances of common stock under the stock incentive plan	1,827	18	24,620	
Stock incentive plan contra*			(22,869)	
Exercise of stock options and other stock conversions	398	4	4,574	
Balance, July 30, 1988	22,592	226	581,349	(811,766)
Net earnings				13,470
Stock incentive plan contra*			2,042	
Exercise of stock options and other stock issuances	468	4	3,058	
Balance, July 29, 1989	23,060	230	586,449	(798,296)
Net loss				(25,970)
Issuance of common stock	3,450	34	25,418	
Issuances of common stock to profit sharing plan	3,223	32	23,242	
Net cancellations of common stock under the stock incentive plan	(184)	(2)	(3,249)	
Stock incentive plan contra*			4,498	
Exercise of stock options	299	4	1,852	
Recognition of additional minimum pension liability				(8,062)
Balance, August 4, 1990	29,848	298	638,210	(832,328)
Net Loss				(87,610)
Issuances of common stock to profit sharing plan	679	7	2,400	
Net cancellations of common stock under the stock incentive plan	(158)	(2)	(2,171)	
Stock incentive plan contra *			4,813	
Adjustment to additional minimum pension liability				3,756
Balance, February 2, 1991	<u>30,369</u>	<u>\$ 303</u>	<u>\$ 643,252</u>	<u>\$ (916,182)</u>

\* Other Paid-in Capital is net of notes receivable and unamortized costs relating to the Company's stock incentive plan (see Employee Stock Incentive Plans section of the Financial Review).

See accompanying Summary of Significant Accounting Policies and Financial Review.



**CARTER HAWLEY HALE STORES, INC.**  
**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reorganization and Basis of Reporting**

On February 11, 1991 (the "Petition Date"), Carter Hawley Hale Stores, Inc. (the "Company") filed a petition (the "Filing") under chapter 11 ("Chapter 11") of the Bankruptcy Code in the United States Bankruptcy Court for the Central District of California (the "Bankruptcy Court"). The Company will continue to manage its affairs and operate its business under Chapter 11 as debtor in possession while a plan of reorganization is formulated. The Company has obtained \$800.0 million of debtor in possession financing from Chemical Bank for use during the reorganization process. The financing consists of a \$250.0 million debtor in possession revolving credit facility and a \$550.0 million accounts receivable facility.

Through a reorganization under Chapter 11, management intends to implement the Company's plan to restructure the operations and capitalization of the Company in order to strengthen the Company's financial position and operating performance.

Consistent with the Chapter 11 proceedings and the plan described above, the accompanying consolidated financial statements have been prepared on a going concern basis assuming the realization of assets and liquidation of liabilities in the ordinary course of business. However, under Chapter 11, actions to enforce certain claims against the Company are stayed if such claims arose, or are based on events that occurred, before the Petition Date. The terms of the ultimate settlement of these liabilities is determined based upon a plan of reorganization approved by the Bankruptcy Court. Such liabilities, in existence at February 2, 1991, are reflected as liabilities to be subject to settlement under reorganization proceedings in the February 2, 1991 Consolidated Balance Sheet. Additional liabilities subject to settlement may arise subsequent to the Petition Date, as a result of claims filed by parties affected by the Company's rejection of executory contracts, including leases, and from the Bankruptcy Court's fixing of allowed claims for contingencies and other disputed amounts. The procedures to determine the amount of any additional liabilities have not been completed. However, the accompanying financial statements include a Current Period charge of \$40.0 million, including \$18.0 million classified as liabilities to be subject to settlement, for estimated costs associated with asset dispositions related to the Chapter 11 proceedings. Additional liabilities may arise as the Chapter 11 proceedings continues.

Actions to enforce claims secured by the Company's assets are also stayed, although the holders of such claims have the right to move the Bankruptcy Court for relief from the stay. Based on current facts and circumstances, such debt is not reflected as subject to settlement in the February 2, 1991 Consolidated Balance Sheet.

Outstanding financing under a receivables securitization facility is presented as a secured claim. Such financing was obtained through CHH Commercial Paper, Inc., an unaffiliated, special purpose corporation, which acquired an interest in the Company's credit card receivables from CHH Receivables, Inc., a wholly owned subsidiary of the Company, funded by the issuance of commercial paper. CHH Receivables, Inc., is not a party to the Filing. At February 2, 1991, the accounts of CHH Receivables, Inc., included in the Consolidated Balance Sheet, consisted principally of accounts receivable of \$667.5 million and receivables based financing of \$633.8 million. The Company's \$550.0 million accounts receivable facility, approved by the Bankruptcy Court on April 8, 1991, replaced the receivables securitization facility.



Certain other liabilities at February 2, 1991 have been disclosed as not being subject to settlement. These relate primarily to employee wages and benefits which were either paid prior to the Filing or paid subsequent to the Filing after the Company obtained an order from the Bankruptcy Court.

#### **Fiscal Year**

Effective as of February 2, 1991, the Company changed its fiscal year end from the Saturday closest to July 31 to the Saturday closest to January 31. The first fiscal period to conclude after this change comprises the twenty-six weeks ended February 2, 1991 (the "Current Period"). The January year end will facilitate comparisons between the Company and its competition, most of which have similar fiscal periods, and best reflect the natural cycle of the Company's business, and will enhance the ability to monitor the Company's performance during its Chapter 11 proceedings.

#### **Changes in Accounting Policies**

In 1990, the Company adopted the balance sheet provisions of Statement of Financial Accounting Standards No. 87 "Employers' Accounting for Pensions" for all defined benefits plans. The statement requires recognition of an additional minimum liability if the accumulated pension plan benefit obligation exceeds the fair market value of plan assets. The application of these provisions in 1990 resulted in the recognition of an additional minimum pension liability of \$47.1 million offset by an intangible asset of \$33.7 million, a reduction in deferred taxes of \$5.3 million, and a direct charge to equity of \$8.1 million.

In 1989, the Company adopted Statement of Financial Accounting Standards No. 96 "Accounting for Income Taxes". This statement requires the use of the liability method of accounting for income taxes and requires the adjustment of previously recorded deferred tax liabilities and assets for the effects of changes in tax laws or rates through the date of the latest financial statements presented. The cumulative effect of the change on prior years was a gain of \$15.3 million which has been reflected in net earnings for the first quarter of 1989. The change had no material effect on 1989 net earnings from operations.

In 1988, the Company changed its method of inventory cost capitalization to conform to the uniform cost capitalization rules required for tax purposes under the Tax Reform Act of 1986. The change results in the capitalization of certain inventory storage and processing costs to better match these costs with the related sales. The cumulative effect of the change on prior years was a gain of \$10.1 million, net of income taxes of \$10.4 million, which has been reflected in net earnings in the first quarter of 1988. The change had no material effect on 1988 net earnings from operations.

#### **Sales**

Sales are net of returns, exclude sales tax, and comprise merchandise, services, and sales by leased departments.

#### **Customer Accounts Receivable**

An account is generally written off when the aggregate of payments made in the most recent six months is less than one full monthly scheduled payment, or when it is otherwise determined that the account is uncollectible.



#### **Inventories**

Merchandise inventories are valued at cost, as determined by the retail method on the last-in, first-out ("LIFO") basis.

#### **Property and Equipment**

Property and equipment are recorded at cost and include major renewals and improvements of a permanent nature. Other renewals and improvements and maintenance and repairs are expensed.

#### **Depreciation and Amortization**

Depreciation and amortization are provided on the straight-line method over the estimated useful lives of the property and equipment, or over the terms of the related leases, if shorter. Debt acquisition costs are amortized over the life of the related debt. Amortization of such costs relating to subordinated debt, however, ceased subsequent to the Petition Date.

#### **Income Taxes**

Income taxes are provided currently for all items included in the Consolidated Statement of Earnings regardless of when such taxes are payable. Deferred taxes arise from the recognition of revenues and expenses in different periods for tax and financial statement purposes. The benefit from net operating losses is recognized to the extent that previously deferred income tax liabilities will reverse in the carryover period or when realization of the benefit is assured beyond a reasonable doubt.

#### **Earnings Per Share of Common Stock**

Earnings per share are computed on the basis of the weighted average number of shares outstanding during the Current Period, including dilutive stock options, net of shares deemed repurchased in connection with the Company's stock incentive plan. The average shares used were 28.8 million in the Current Period and 23.7 million in the comparative prior year period, 25.1 million in 1990, and 21.8 million in both 1989 and 1988. In 1988, earnings per share computations were based on earnings net of preferred dividend payments of \$2.1 million.

Fully diluted earnings per share have not been presented since there was no dilution or the dilutive effect was not material.



## FINANCIAL REVIEW

### Gain on the Sale of Thalhimers

On December 14, 1991, the Company completed the sale of its Thalhimers subsidiary for \$317.0 million. The transaction, which was effective as of November, 1990, resulted in a pre-tax gain of \$30.0 million which was recognized in the first quarter of the Current Period. Thalhimers' results of operations for the thirteen week period ended November 3, 1990, which consisted of a loss before interest of \$.1 million and a pretax operating loss of \$7.9 million, were excluded from the results of operations and are incorporated in the gain on the sale. Thalhimers' sales were \$445.9 million in 1990, \$403.0 million in 1989 and \$367.1 million in 1988.

### Regional Consolidation Programs

The sale of Thalhimers allowed the Company to completely focus on the west coast markets. In this regard, the Company initiated expense reduction programs directed at capitalizing on the available efficiencies associated with the operation of a more centralized business. These programs include divisional consolidations, consolidation of divisional administrative activities, elimination of redundant functions, and reduction of overhead at both the operating divisions and the corporate office. During the Current Period, the Company established provisions totalling \$47 million for these programs. Approximately \$12 million of the total relates to estimated costs to complete the consolidation of the administrative functions of the Company's Emporium and Weinstocks divisions, which is expected to be completed by August 1991. The divisions share similarities in geographical areas covered, customer base, and competition.

### Other (Income) Expense

Other (income) expense consists of the following:

(In millions)	Twenty-Seven Weeks Ended	Year Ended		
	February 3, 1990 (Unaudited)	August 4, 1990	July 29, 1989	July 30, 1988
Gains on asset sales		\$ (7.3)		\$ (30.0)
Costs of operational and facility realignment programs				28.5
Costs of buying office closure and reconfiguration of buying programs	\$ 4.1	12.1	\$ 6.0	
Other (income) expense	\$ 4.1	\$ 4.8	\$ 6.0	\$ (1.5)

Gains on asset sales of \$7.3 million in 1990 and \$30.0 million in 1988 related principally to sales of interests in shopping centers.

Fiscal 1988 includes \$28.5 million of operational and facility realignment costs incurred in connection with the Company's 1987 restructuring. The costs were incurred in connection with the consolidation of certain nonselling operating activities, the conversion of certain merchandise departments from owned to leased operations, and other programs designed to reduce operating costs and improve efficiency.

The consolidation of certain corporate buying programs, the 1989 transfer of administration of group buying programs to Associated Merchandising Corp., an independent retail organization, and the closure of the Company's New York buying office, resulted in charges totaling \$18.1 million during fiscal 1990 and 1989.



### Interest Expense

Interest expense decreased in the Current Period as a result of the use of the proceeds from the Thalhimers sale to reduce debt. The components of interest expense are as follows:

(In millions)	Twenty-Six Weeks Ended	Twenty-Seven Weeks Ended	Year Ended		
	February 2, 1991	February 3, 1990 (Unaudited)	August 4, 1990	July 29, 1989	July 30, 1988
Interest on total debt	\$ 78.5	\$ 84.1	\$166.1	\$151.4	\$123.3
Imputed interest on capitalized lease obligations	3.0	3.5	6.9	7.4	8.3
Interest allocated to Thalhimers	(11.4)	(1.6)	(4.5)	(2.6)	(1.0)
Capitalized interest	(1.8)	(1.6)	(4.5)	(2.6)	(1.0)
Amortization of debt issuance costs	2.0	2.9	7.1	5.4	5.6
Other	.7	(1.3)	(1.4)	(1.2)	(.6)
Interest expense	<u>\$ 71.0</u>	<u>\$ 87.6</u>	<u>\$174.2</u>	<u>\$160.4</u>	<u>\$135.6</u>

Reflected in the Consolidated Balance Sheet is accrued interest of \$28.2 million at February 2, 1991 and \$26.3 million at August 4, 1990. Of the total accrued interest at February 2, 1991, \$20.2 million relates to unsecured debt and has been reported with liabilities to be subject to settlement under reorganization proceedings. The remaining accrued interest at February 2, 1991 of \$8.0 million and the accrued interest at August 4, 1990 are included in accrued liabilities. Interest payments, net of amounts capitalized, were \$77.9 million for the Current Period, \$169.2 million in 1990, \$156.0 million in 1989, and \$112.2 million in 1988.

Subsequent to the Petition Date, the Company ceased accruing interest and amortizing the debt issuance costs on its unsecured debt.

### Income Tax Expense (Benefit)

The provision (benefit) for income taxes consists of the following:

(In millions)	Twenty-Six Weeks Ended	Year Ended		
	February 2, 1991	August 4, 1990	July 29, 1989	July 30, 1988
Current	\$ 1.9	\$ (2.9)	\$ 7.1	22.4
Federal	4.0	1.4	.8	6.7
State	<u>5.9</u>	<u>(1.5)</u>	<u>7.9</u>	<u>29.1</u>
Deferred	(17.1)	(.3)	(3.0)	(19.0)
Federal	(2.0)	(.2)	.1	(3.9)
State	<u>(19.1)</u>	<u>(.5)</u>	<u>(2.9)</u>	<u>(22.9)</u>
Income tax expense (benefit)	<u>\$ (13.2)</u>	<u>\$ (2.0)</u>	<u>\$ 5.0</u>	<u>\$ 6.2</u>



Deferred income tax benefits result from temporary differences in the recognition of revenue and expense for tax and financial statement purposes. The sources of these temporary differences and their tax effects are as follows:

(In millions)	Twenty-Six Weeks Ended	Year Ended		
	February 2, 1991	August 4, 1990	July 29, 1989	July 30, 1988
State income taxes	\$ .3	\$ .9	\$ .2	\$ (1.6)
Book-tax depreciation differential	(2.8)	6.9	3.7	(.6)
Finance charge revenue		1.1	.7	.1
Deferred revenue		(2.8)	1.6	1.2
Capitalized interest and other				
real estate costs	.6	2.1	1.9	1.0
Prepaid and other deferred charges	(1.4)	9.1	7.9	(2.9)
Inventory adjustments	(.3)	(2.4)	(2.4)	.6
Functional consolidation and				
restructuring reserves		6.6	5.9	(3.1)
Provision for regional				
consolidation programs	(4.1)			
Provision for store closing	(9.0)			
Deferred gross profit on installment				
sales	(.8)	(20.6)	(21.5)	(16.3)
Charitable contribution carryover			(1.3)	
Tax credit carryovers		.9	(1.5)	
Other, net	(1.6)	(2.3)	1.9	(1.3)
Deferred income tax benefit	<u>\$(19.1)</u>	<u>\$ (.5)</u>	<u>\$ (2.9)</u>	<u>\$(22.9)</u>

Factors causing the Company's effective income tax rate to differ from the federal statutory rate are as follows:

(Percent of Pre-tax Earnings)	Twenty-Six Weeks Ended	Year Ended		
	February 2, 1991	August 4, 1990	July 29, 1989	July 30, 1988
Federal income tax at statutory rate	(34.0)%	(34.0)%	34.0%	34.0%
State income taxes	1.4	15.2	9.7	11.9
Losses for which no benefit is recognized	19.1			
Targeted Jobs Tax Credit	(.4)		(4.9)	(4.5)
Adjustments to taxes previously				
recorded	(.9)	(2.1)		
Other, net	(.4)	3.5	1.5	(1.4)
Effective income tax rate	<u>(15.2)</u>	<u>(17.4)</u>	<u>40.3</u>	<u>40.0</u>

The Company has a tax basis net operating loss carryforward of approximately \$17 million for federal purposes and federal business credit carryforwards of approximately \$2.9 million, of which \$1.1 million expires in the year 2004 and \$1.8 million carries over indefinitely. For financial statement purposes, the Company has \$63.3 million of net operating losses for which no benefit can be recognized under generally accepted accounting principles.



Income tax payments were \$.2 million in the Current Period, \$2.4 million for the twenty-seven weeks ended February 3, 1990, \$2.4 million in 1990, \$7.2 million in 1989, and \$11.7 million in 1988.

The Company and The Neiman Marcus Group entered into a Tax Allocation Agreement (the "Agreement") in connection with the Company's 1987 restructuring. Under the Agreement, The Neiman Marcus Group is responsible for the payment of certain taxes that are, or may become payable as a result of the transition rules of the Tax Reform Act of 1986, as they relate to installment sales, bad debt reserves, and inventory capitalization attributable to the specialty store business for periods prior to the 1987 Restructuring. The Neiman Marcus Group disputed their potential obligation of approximately \$24 million for taxes arising under the Agreement. This includes approximately \$14 million reflected by the Company in current accounts receivable and \$10 million which would be payable to The Neiman Marcus Group if they prevailed. On April 14, 1989, the Company commenced litigation seeking a declaration of The Neiman Marcus Group's obligation for such taxes as they become due. In response, The Neiman Marcus Group counter claimed to recover approximately \$6 million relating to the treatment of other taxes under the Agreement and disputed their obligation to pay \$2 million of such taxes reflected by the Company in current accounts receivable. In the opinion of management, the outcome of this litigation will not have a material impact on the Company's financial position, although no assurances can be given in this regard. As a result of the Filing, The Neiman Marcus Group's counterclaims against the Company have been stayed.

#### **Extraordinary Earthquake Loss**

The Emporium division of the Company, which operates 22 stores in the San Francisco Bay area, suffered extensive damage as a result of the major earthquake which affected that area on October 17, 1989. Eleven stores were closed for periods of one to eleven days and the division's downtown Oakland store remained closed until August 1990. The Company maintains earthquake and business interruption insurance with standard deductible provisions that require the Company to incur an initial level of costs at each location subject to damage or interruption of business. In the year ended August 4, 1990, the Company recorded a \$16.5 million extraordinary charge, net of income tax benefits of \$11.0 million, to cover earthquake costs to be incurred in excess of insurance proceeds.



### Accounts Receivable and Credit Operations

Accounts receivable consist of the following:

(In millions)	February 2, 1991	August 4, 1990
Customer receivables	\$673.5	\$709.2
Other receivables	2.2	2.0
Income taxes	18.3	19.0
The Neiman Marcus Group	19.4	26.9
Other	713.4	757.1
	13.4	11.2
Less allowance for doubtful accounts		
Accounts receivable, net	<u>\$700.0</u>	<u>\$745.9</u>

Included in the August 4, 1990 balance were Thalhimers division customer receivables of \$118.6 million, net of a \$1.9 million allowance for doubtful accounts.

The receivable from The Neiman Marcus Group at February 2, 1991, includes approximately \$16 million under the Tax Allocation Agreement entered into at the time of the Company's 1987 restructuring, with the balance representing amounts for shared costs and other reimbursable expenses incurred by the Company. Fees received from The Neiman Marcus Group for data processing support provided through fiscal 1990, have been treated as a reduction of selling, general, and administrative expenses.

Selected credit operations information is as follows:

(Dollar amounts in millions)	Twenty-Six Weeks Ended	Year Ended		
	February 2, 1991	August 4, 1990	July 29, 1989	July 30, 1988
Credit sales as a percent of gross sales	56.3%	57.3%	58.5%	53.2%
Uncollectible account losses, net of recoveries, as a percent of credit sales	2.2%	2.2%	1.4%	1.2%
Finance charge income	\$49.3	\$125.0	\$94.9	\$65.4

Finance charge revenue is treated as a reduction of selling, general, and administrative expenses.

### Inventories

Merchandise inventories were \$355.4 million at February 2, 1991 and \$550.4 million at August 4, 1990. For the Current Period, the LIFO method of accounting resulted in a charge of \$4.7 million compared to charges of \$2.0 million for the twenty-seven week period ended February 3, 1990, \$22.2 million in 1990, \$3 million in 1989 and \$4.8 million in 1988. If all inventories had been valued on the first-in, first-out ("FIFO") basis, they would have been higher by \$74.5 million at February 2, 1991, \$72.0 million at August 4, 1990, \$49.8 million at July 29, 1989, and \$52.4 million at July 30, 1988.



## Leases

Certain Company operations are conducted in leased properties, which include retail stores, clearance centers, distribution centers, offices, and other facilities. Leases are generally for periods of up to thirty years, with renewal options for substantial periods. Leases are generally at fixed rental rates, except that certain leases provide for additional rental charges based on sales in excess of predetermined levels.

Rent expense for each period is as follows:

(In millions)	Twenty-Six Weeks Ended	Year Ended		
	February 2, 1991	August 4, 1990	July 29, 1989	July 30, 1988
Minimum rent	\$16.6	\$35.5	\$33.4	\$33.1
Rent based on sales	.6	3.7	3.6	3.8
Total rent expense	<u>\$17.2</u>	<u>\$39.2</u>	<u>\$37.0</u>	<u>\$36.9</u>

Future minimum lease payments are as follows:

(In millions)	Capital Leases	Operating Leases
1991	\$ 8.2	\$31.7
1992	8.0	32.2
1993	8.0	32.4
1994	7.7	32.7
1995	7.7	32.9
Thereafter	<u>76.6</u>	<u>494.4</u>
Total future minimum lease obligations	<u>\$116.2</u>	<u>\$656.3</u>
Present value, including \$2.9 million current portion of capital lease obligations	<u>\$ 65.0</u>	<u>\$234.7</u>

The present value of operating leases is determined by discounting future minimum rent commitments, less assumed executory and administrative costs, at rates that approximate the Company's financing costs at the inception of the leases.

The Company can reject executory contracts, including leases, under the relevant provisions of the Bankruptcy Code. In connection with the Chapter 11 proceedings, a review is currently being undertaken of all lease obligations. Rejection of a lease gives the lessor the right to assert a claim against the Company. The estimated claims for rejections of leases of facilities identified for possible closure are included in the provision for store closings at February 2, 1991. The above analysis of future minimum lease payments, however, has been adjusted only to reflect lease rejections for which Bankruptcy Court approval has been obtained.



## Property and Equipment

Property and equipment is as follows:

(In millions)	February 2, 1991	August 4, 1990
Land	\$ 36.3	\$ 47.4
Buildings and improvements	358.5	389.4
Leasehold improvements	76.8	86.5
Fixtures and equipment	393.7	447.4
Construction in progress	41.8	67.7
Leased property under capital leases, primarily buildings	<u>96.2</u>	<u>100.6</u>
	<u>1,003.3</u>	<u>1,139.0</u>
Less accumulated depreciation and amortization		
Owned property	443.0	493.5
Leased property under capital leases	<u>48.6</u>	<u>49.2</u>
	<u>491.6</u>	<u>542.7</u>
Property and equipment, net	<u>\$ 511.7</u>	<u>\$ 596.3</u>

Capital expenditures were as follows:

(In millions)	Twenty-Six Weeks Ended	Year Ended		
	February 2, 1991	August 4, 1990	July 29, 1989	July 30, 1988
New stores	\$ 25.7	\$41.7	\$15.9	\$ 9.9
Store modernization and support facilities	12.3	36.9	51.0	45.4
Purchases of leased stores	<u>—</u>	<u>4.6</u>	<u>8.9</u>	<u>24.9</u>
Total capital expenditures	<u>\$38.0</u>	<u>\$83.2</u>	<u>\$75.8</u>	<u>\$80.2</u>

Expenditures for new stores include acquisition costs of land, buildings and improvements, and related fixtures and equipment. Store modernization expenditures include renovating, expanding, and re-equipping existing stores. Expenditures on support facilities relate to office buildings, distribution centers, and other non-store outlays. In addition, expenditures for the purchase of certain properties previously operated under capital or operating leases have been segregated and disclosed separately. The properties were subsequently used as collateral for certain long-term debt financing.

In connection with the rejection of certain of the Company's real property leases, the Company will incur losses for unamortized leasehold improvements. Such losses for facilities identified for possible closure are included in the provision for store closings at February 2, 1991.



### Liabilities to be Subject to Settlement Under Reorganization Proceedings

Liabilities expected to be subject to settlement as part of the plan of reorganization have been separately classified as of February 2, 1991 and include the following:

(in millions)	February 2, 1991
Accounts payable	\$182.8
Accrued liabilities	75.6
Subordinated debt	125.0
12.25 percent Notes due 1996	225.0
12.5 percent Debentures due 1998-2002	(9.7)
Unamortized subordinated debt acquisition costs	
	<u>\$598.7</u>

Actions to enforce liabilities subject to settlement are stayed while the Company is under the protection of the Bankruptcy Code. As part of the Chapter 11 reorganization process, the Company will be required to notify its claimants for the purpose of identifying claims against the Company. These liabilities will be resolved as part of the reorganization proceedings. Additional liabilities subject to similar resolution may arise as result of claims filed by parties related to the Company's rejection of executory contracts, including leases, and from the Bankruptcy Court's fixing of allowed claims for contingencies and other disputed amounts.

### Bank Credit Arrangements

At February 2, 1991, under a temporary facility, \$45.0 million of letters of credit were outstanding, secured by \$45.4 million of cash deposits. These letters of credit were subsequently replaced with letters of credit issued under the debtor in possession \$250.0 million working capital facility.

In connection with the Filing, the Company entered into a debtor in possession credit agreement with Chemical Bank which included the \$250.0 million unsecured working capital facility. The facility, which provides for a combination of working capital loans and letters of credit, expires no later than February 28, 1993. Outstanding borrowings under the facility accrue interest computed at a rate equivalent to one and one-half percent above the bank's prime rate. The facility provides for a commitment fee of one-half percent on the unused portion of the facility, and certain other fees. In addition, closing costs of approximately \$5 million, relating to the facility will be amortized over the term of the facility.

The debtor in possession working capital facility includes, restrictions on payment of prepetition debt, and capital expenditures, and requires the maintenance of certain financial ratios.



### Long-Term Debt

Long-term debt (excluding current maturities of \$.7 million at August 4, 1990) was as follows:

(In millions)	February 2, 1991	August 4, 1990
Receivables based financing (7.5 percent weighted average interest rate at February 2, 1991)	<u>\$633.8</u>	<u>\$678.6</u>
Secured long-term debt		
Term loans due in 1995 (7.6 percent at February 2, 1991)	\$ 89.7	\$126.7
9.9 percent Notes due 1991-2010	9.4	9.3
10.69 percent Notes due 1992-1997	328.0	347.2
10.2 percent Notes due 1992-1996	16.0	30.0
Other	<u>10.1</u>	<u>9.5</u>
	<u>\$453.2</u>	<u>522.7</u>
Subordinated debt		
12.25 percent Notes due 1996		125.0
12.5 percent Debentures due 1998-2002		<u>225.0</u>
		<u>\$872.7</u>

The Company's \$350.0 million of subordinated debt has been presented as a liability to be subject to settlement under reorganization proceedings as of February 2, 1991. As a result, the accrual of interest expense and amortization of related debt acquisition costs has ceased subsequent to the Petition Date.

The accrual of interest and the amortization of debt acquisition costs relating to the secured debt has continued subsequent to February 2, 1991. In accordance with the terms of the debtor in possession working capital facility obtained subsequent to the Filing, however, except under certain circumstances, no payments of interest or principal on this secured debt may be made during the term of the working capital facility. As a result, the Company is in default on all of its prepetition long-term debt agreements. Actions to enforce these defaults are stayed while the Company is under the protection of the Bankruptcy Code and as a result, current maturities of \$.9 million payable under these debt agreements have been classified as long-term debt.

During the Current Period, the Company funded its credit card activities through a credit card receivables securitization facility which provided for CHH Commercial Paper, Inc., a special purpose corporation not affiliated with the Company, to acquire interests in the Company's credit card receivables, through the issuance of commercial paper. The initial term of the facility was for the three-year period ending December 1991.

The sale of Thalhimers, in the fall of 1990, resulted in a \$100 million decrease in the credit card facility to \$750.0 million. Subsequent to the Filing, the Company replaced the facility with the \$550.0 million receivables facility provided by Chemical Bank. Borrowings under this receivables facility, which expires no later than February 1993, accrue interest computed at a rate equivalent to two percent above the bank's prime rate. The facility also includes a commitment fee of one-half percent on the unused portion of the facility, and certain other fees. In addition, closing costs of approximately \$16 million related to the receivables facility will be amortized over the term of the facility.



The write-off of unamortized costs and prepayment penalties with respect to the early retirement of debt resulted in an extraordinary net of tax charge of \$14.1 million in the Current Period. In addition, the cancellation of a working capital facility in 1989, as a result of the establishment of a receivables securitization facility, and the refinancing of debt on certain mortgaged properties in 1989 and 1988 resulted in extraordinary net of tax charges of \$9.2 million in 1989 and \$1.7 million in 1988.

Scheduled principal maturities of long-term debt payable over the next five years exclusive of payments of receivables based financings, are \$9 million in 1991, \$1.4 million in 1992, \$2.5 million in 1993, \$2.8 million in 1994, and \$92.7 million in 1995.

Long-term debt includes \$453.2 million secured by property with a net carrying value of \$234.9 million.

The Company's debt agreements include restrictions on capital expenditures and require the maintenance of certain financial ratios.

#### **Retirement and Profit Sharing Plans**

The Company has several qualified noncontributory pension plans covering substantially all employees. Employees who have completed one year of employment, are at least 21 years of age, and are not covered by a collectively bargained pension plan, are covered by the plans and become vested for benefit purposes after completing five years of employment with the Company. The Company also has unfunded nonqualified pension plans covering certain employees and directors. The Company normally contributes at least the actuarially determined minimum amount necessary to fund participants' benefits in accordance with the requirements of the Employee Retirement Income Security Act of 1974. As a result of the Filing, contributions to the qualified plans (the "Plans") may not be made without the approval of the Bankruptcy Court. As of May 1, 1991, contributions totaling \$6.7 million were owed to the Plans. The Bankruptcy Court approved a pension plan contribution payment of approximately \$5.2 million on May 13, 1991. The Company intends to request authority from the Bankruptcy Court to make additional contributions as they have or may become due. Plan assets, which are held in a trust, are not subject to the claims of the Company's creditors. The assets are invested in equity and fixed income securities.

The Filing also resulted in a suspension of the payment of pension benefits under the Company's unfunded nonqualified pension plans. That portion of the benefit accrued prior to August 2, 1987, is subject to an unconditional guarantee of payment by The Neiman Marcus Group under an agreement entered into with the Company at the time of the Company's 1987 restructuring.



The following table summarizes pension expense and funded status of the plans, as determined by the Company's actuary, together with an analysis of the significant actuarial assumptions used:

(In millions)	Twenty-Six Weeks Ended	Year Ended		
	February 2, 1991	August 4, 1990	July 29, 1989	July 30, 1988
Net periodic pension expense				
Service cost	\$ 2.2	\$ 5.6	\$ 4.9	\$ 5.9
Interest cost on projected benefit obligation	7.8	15.3	14.2	13.0
Actual net loss (return) on assets	(.6)	(4.0)	(10.2)	2.8
Net amortization (deferral)	(3.0)	(4.0)	2.2	(11.5)
	<u>\$ 6.4</u>	<u>\$ 12.9</u>	<u>\$ 11.1</u>	<u>\$ 10.2</u>
Funded status of plans				
Accumulated benefit obligation				
Vested	\$(130.8)	\$(159.4)	\$(145.7)	\$(133.3)
Nonvested	(6.8)	(4.7)	(8.1)	(9.3)
	<u>(137.6)</u>	<u>(164.1)</u>	<u>(153.8)</u>	<u>(142.6)</u>
Additional amounts relating to projected compensation increase	(15.4)	(19.8)	(19.0)	(23.7)
Actuarial present value of projected benefit obligation	(153.0)	(183.9)	(172.8)	(166.3)
Market value of plan assets	<u>80.8</u>	<u>98.2</u>	<u>95.1</u>	<u>92.6</u>
Funded status	(72.2)	(85.7)	(77.7)	(73.7)
Unrecognized net obligation at initial date of application of SFAS No. 87	28.0	33.1	35.1	37.6
Unrecognized net loss	21.9	29.9	24.2	29.1
Unrecognized prior service costs	3.6	3.9	2.2	
Additional minimum liability recognized under SFAS No. 87	<u>(38.1)</u>	<u>(47.1)</u>		
Pension liability	<u>\$ (56.8)</u>	<u>\$ (65.9)</u>	<u>\$ (16.2)</u>	<u>\$ (7.0)</u>
Significant actuarial assumptions				
Discount rate	9.5%	9.5%	9.5%	9.0%
Long-term rate of return on assets	9.5	11.0	11.0	11.0
Projected rate of compensation increases	5.0	5.0	5.0	5.0

As of February 2, 1991, the \$72.2 unfunded projected benefit obligation consisted of \$41.6 million relating to the Plans and \$30.6 million relating to the unfunded nonqualified plans.



The Company also provides certain health care and life insurance benefits for retired employees. As currently administered, substantially all Company employees become eligible for these benefits if they reach normal retirement age while working for the Company. The cost of retiree health care and life insurance benefits is recognized as expense when paid. Paid benefits totalled \$.9 million in the Current Period, \$2.8 million in 1990, \$2.9 million in 1989, and \$2.5 million in 1988.

In December 1990, the Financial Accounting Standards Board issued Statement No. 106 "Employers' Accounting for Postretirement Benefits Other Than Pensions." The Statement focuses principally on postretirement health care benefits and requires the present value of such benefits to be accrued over the expected service period of the related employees. Based upon the current plan provisions, the Company estimates that a transition obligation of approximately \$35 million will require recognition on adoption of the Statement. The transition obligation may be recognized in the statement of earnings as the effect of an accounting change in year of adoption or be amortized to expense over a period of time, which the Company expects to be in the range of 15 to 20 years. The Statement must be adopted by the Company by the first quarter of fiscal 1993.

A contributory Profit Sharing Plan is available to substantially all employees who have completed one year of service. The plan provides that the Company will contribute an amount which is the greater of 3 percent of consolidated pretax earnings (as defined in the plan agreement) or an amount which is at least equal to 25 percent of employee contributions. Employee and Company contributions are used to buy shares of the Company's common stock at prevailing market prices. Employee contributions to the plan were suspended as a result of the Filing and in accordance with the plan document participants became 100% vested in their Company contribution accounts at that time. The accompanying financial statements reflect \$1.1 million of Company contributions accrued in the Current Period, which may not be transferred to the plan without a Bankruptcy Court order authorizing such contribution. The Company is currently reviewing its options for continuation of the plan, including seeking a Bankruptcy Court order to make this contribution and future contributions as they become due. Company contributions to the plan were \$3.7 million in 1990, \$3.2 million in 1989, and \$2.8 million in 1988. The Plan, at February 2, 1991, held 14.5 million shares representing 48 percent of the Company's common stock outstanding.

As part of the Company's 1987 restructuring, an Employee Benefits Agreement was entered into with The Neiman Marcus Group which provides that The Neiman Marcus Group will be responsible for 50 percent of the unfunded liabilities which were accrued prior to the Company's 1987 restructuring and were attributable to the Company's corporate employees under the pension, deferred compensation, and medical and life insurance plans. The agreement also provides that the Company and The Neiman Marcus Group jointly and unconditionally guarantee the unfunded liabilities accrued prior to the Company's 1987 restructuring for corporate employees under the nonqualified pension plans and the deferred compensation plans. The agreement provides that the guarantee shall continue in effect until the Company's net worth exceeds \$300 million.

#### Employee Stock Incentive Plans

The Company's stock incentive plan provides for the issuance of stock options, stock purchase rights, and restricted stock awards to key employees. Stock options are granted to purchase common stock of the Company at not less than the market price on the date of grant and are exercisable over a ten-year period, generally beginning one year from the date of grant. Pursuant to the Company's stock incentive plan, exercises of stock purchase rights result in the issuances of shares of common stock of the Company in return for executed non-recourse interest bearing notes which become due in six years. Shares issued as a result of the exercise of stock purchase rights are held by the Company as collateral for the notes. Restricted stock awards are shares issued at no cost to the employee but which vest only after the completion of six years of continuous employment with the Company subsequent to the grant date.



During the Current Period, options for 38,000 shares at a price of \$3.125 and 20,000 restricted stock awards at a price of \$5.375 were issued under this plan. At February 2, 1991, options for 259,325 shares were outstanding at exercise prices ranging from \$3.125 to \$14.00 of which 39,925 were exercisable.

At February 2, 1991, \$9.2 million of 7.90 percent to 9.69 percent non-recourse notes relating to .7 million shares issued in connection with the exercise of stock purchase rights was reflected as a reduction in shareholders' equity.

The cost of the restricted stock awards was, until the Current Period, being amortized over the vesting period. As a result of the Filing and the decline in the market value of the Company's common stock, there is significantly limited incentive associated with the restricted stock awards. Consequently, all costs expected to be amortized over the vesting period were expensed in the Current Period, resulting in a charge to income of \$2.7 million in the Current Period compared to charges of \$1.3 million in 1990, \$1.9 million in 1989, and \$1.8 million in 1988.

At February 2, 1991, under stock incentive plans in existence at the time of the Company's 1987 restructuring, options for 2.7 million shares were outstanding and exercisable at prices ranging from \$2.67 to \$7.30. During 1990 no options were exercised under these plans. Subsequent to the Company's 1987 restructuring, no new options can be granted under these plans.

#### **Contingencies**

The Company is a defendant in certain legal actions which have been stayed as a result of the Filing. In the opinion of management, the disposition of these actions will not have a material adverse effect upon the Company's financial position or results of operations.

#### **Common Stock and Other Shareholders' Equity**

At February 2, 1991, the Company's authorized common stock consisted of 100 million shares, \$.01 par value, of which 3.5 million shares were reserved under the employee stock incentive plans and .4 million shares were reserved for purchase by the Profit Sharing Plan.

On August 26, 1987, the Company declared a dividend of one Preferred Stock Purchase Right (the "Right") for each outstanding share of common stock. The Rights expire 10 years after issuance, and are exercisable only if a person or group (other than the Profit Sharing Plan) acquires 20 percent or more of the Company's common stock or commences a tender or exchange offer which would result in the acquisition of 30 percent or more of the Company's common stock. Each Right entitles the holder to purchase one newly issued unit of preferred stock at an exercise price of \$60. Under certain circumstances, as provided in the Rights Plan, each Right entitles the holder to purchase common stock of the Company or an acquiring company having a value equal to twice the exercise price. The Company may redeem the Rights at \$.02 per Right at any time prior to 10 days after the acquisition of 20 percent of the Company's common stock.



On August 26, 1987, shareholders approved a plan of restructuring (the "1987 Restructuring") in which the Company was reorganized into two separate companies: the Company and The Neiman Marcus Group, a Delaware Corporation founded in 1987. All public common stockholders of the Company, including participants in the Company's profit sharing plan, retained their stock in the Company and also received \$17 in cash and a share of common stock in The Neiman Marcus Group for each Company share held. The convertible preferred shares of the Company (held by General Cinema Corporation) were exchanged for shares in The Neiman Marcus Group. General Cinema received no cash or shares of the Company in respect of its preferred shares. General Cinema did receive cash and common stock of The Neiman Marcus Group for Common Stock it previously held. Senior Management of the Company received no cash or shares of The Neiman Marcus Group in exchange for their existing holdings, except for the shares held in the profit sharing plan, but, received instead, additional common shares of the Company. The 1987 Restructuring allowed certain stockholders, including participants in the profit sharing plan, to elect what combination of cash and securities they would hold after the effective time of the 1987 Restructuring and incorporated a market formula designed to provide all shareholders with essentially equivalent value.

#### **Preferred Stock**

The authorized preferred stock of the Company consisted of five million shares, \$.01 par value, of which no amounts were reserved or outstanding at February 2, 1991.



**CARTER HAWLEY HALE STORES, INC.**  
**SCHEDULE II -- ACCOUNTS RECEIVABLE FROM RELATED PARTIES**

	Balance at Beginning of Period	Additions	Cancellations	Balance At End of Period
	(in thousands)			
Twenty-six week period ended February 2, 1991				
Participants of 1987				
Stock Incentive Plan <sup>(a)</sup> .....	\$10,465	\$ -	\$(1,278)	\$ 9,187
John M. Gailys <sup>(b)</sup> .....	\$ -	\$ 104	\$ -	\$ 104
Fiscal year ended August 4, 1990				
Participants of 1987				
Stock Incentive Plan <sup>(a)</sup> .....	\$12,198	\$ 173	\$(1,906)	\$10,465
Fiscal year ended July 29, 1989				
Participants of 1987				
Stock Incentive Plan <sup>(a)</sup> .....	\$12,276	\$ 270	\$ (348)	\$12,198
Fiscal year ended July 30, 1988				
Participants of 1987				
Stock Incentive Plan <sup>(a)</sup> .....	\$ -	\$12,276	\$ -	\$12,276

- (a) During the past three and one-half years, participants in the 1987 Stock Incentive Plan (the "Plan") were issued 704,450 shares of the Company's common stock (net of cancellations of 312,250 shares) in exchange for non-recourse notes, in connection with exercises of stock purchase rights. The notes, which are reflected as a reduction in shareholders' equity, become due six years from the date of issuance and bear interest at rates ranging from 7.90 percent to 9.69 percent at February 2, 1991.
- (b) In September 1990, the Company made a loan of \$104,000 to Mr. John M. Gailys, Executive Vice President and Chief Financial Officer of the Company.



**CARTER HAWLEY HALE STORES, INC.**  
**SCHEDULE V-PROPERTY AND EQUIPMENT**

Description	Balance at Beginning of Period	Additions at Cost	Retirements	Sales and Other Changes (1)	Balance at End of Period
(in thousands)					
Twenty-six week period ended February 2, 1991					
Land .....	\$ 47,350	\$	\$	\$(11,104)	\$ 36,246
Buildings and improvements .....	389,429			(30,892)	358,537
Leasehold improvements .....	86,474			(9,636)	76,838
Fixtures and equipment .....	447,403			(53,669)	393,734
Construction in progress .....	67,705	37,989	(2,210)	(61,724)	41,760
Leased properties under capital leases, primarily buildings .....	100,636			(4,445)	96,191
	<u>\$1,138,997</u>	<u>\$37,989</u>	<u>\$(2,210)</u>	<u>\$(171,470)</u>	<u>\$1,003,306</u>
Fiscal year ended August 4, 1990					
Land .....	\$ 46,915	\$	\$	\$ 435	\$ 47,350
Buildings and improvements .....	351,991			37,438	389,429
Leasehold improvements .....	83,264		(4,279)	7,489	86,474
Fixtures and equipment .....	440,541		(6,745)	13,607	447,403
Construction in progress .....	38,031	83,220		(53,546)	67,705
Leased properties under capital leases, primarily buildings .....	116,022		(887)	(14,499)	100,636
	<u>\$1,076,764</u>	<u>\$83,220</u>	<u>\$(11,911)</u>	<u>\$ (9,076)</u>	<u>\$1,138,997</u>
Fiscal year ended July 29, 1989					
Land .....	\$ 45,729	\$	\$	\$ 1,186	\$ 46,915
Buildings and improvements .....	304,017			47,974	351,991
Leasehold improvements .....	84,042			(778)	83,264
Fixtures and equipment .....	425,026			15,515	440,541
Construction in progress .....	38,656	75,849		(76,474)	38,031
Leased properties under capital leases, primarily buildings .....	120,147		(2,055)	(2,070)	116,022
	<u>\$1,017,617</u>	<u>\$75,849</u>	<u>\$ (2,055)</u>	<u>\$(14,647)</u>	<u>\$1,076,764</u>
Fiscal year ended July 30, 1988					
Land .....	\$ 37,788	\$	\$	\$ 7,941	\$ 45,729
Buildings and improvements .....	204,157	25,848		74,012	304,017
Leasehold improvements .....	104,779	524		(21,261)	84,042
Fixtures and equipment .....	413,160	1,508	(21)	10,379	425,026
Construction in progress .....	6,217	52,325		(19,886)	38,656
Leased properties under capital leases, primarily buildings .....	175,842		(1,450)	(54,245)	120,147
	<u>\$ 941,943</u>	<u>\$80,205</u>	<u>\$ (1,471)</u>	<u>\$ (3,060)</u>	<u>\$1,017,617</u>

- (1) Sales and other changes reflect the following items:
- Fixed asset sales completed during the period.
  - Reclassification of costs from construction in progress for projects completed during the period.
  - Reclassification of costs relating to properties purchased during the period which previously were operated under capital leases.



**CARTER HAWLEY HALE STORES, INC.**

**SCHEDULE VI--ACCUMULATED DEPRECIATION AND AMORTIZATION  
OF PROPERTY AND EQUIPMENT**

<u>Description</u>	<u>Balance at Beginning of Period</u>	<u>Additions Charged to Costs and Expenses</u>	<u>Retirements</u>	<u>Sales and Other Changes (1)</u>	<u>Balance at End of Period</u>
(in thousands)					
Twenty-six week period ended February 2, 1991					
Buildings and improvements .....	\$137,787	\$ 3,910	\$	\$(20,105)	\$121,592
Leasehold improvements .....	21,475	1,210		(4,941)	17,744
Fixtures and equipment .....	334,253	9,344		(39,899)	303,698
Leased properties under capital leases, primarily buildings .....	49,158	1,324		(1,900)	48,582
	<u>\$542,673</u>	<u>\$15,788</u>	<u>\$ -</u>	<u>\$(66,845)</u>	<u>\$491,616</u>
Fiscal year ended August 4, 1990					
Buildings and improvements .....	\$119,357	\$ 8,703	\$	\$ 9,727	\$137,787
Leasehold improvements .....	22,717	2,667	(2,913)	(996)	21,475
Fixtures and equipment .....	316,210	26,535	(6,052)	(2,440)	334,253
Leased properties under capital leases, primarily buildings .....	57,504	3,132	(710)	(10,768)	49,158
	<u>\$515,788</u>	<u>\$41,037</u>	<u>\$(9,675)</u>	<u>\$ (4,477)</u>	<u>\$542,673</u>
Fiscal year ended July 29, 1989					
Buildings and improvements .....	\$107,666	\$ 7,912	\$	\$ 3,779	\$119,357
Leasehold improvements .....	23,207	2,699		(3,189)	22,717
Fixtures and equipment .....	293,939	28,438		(6,167)	316,210
Leased properties under capital leases, primarily buildings .....	57,144	3,443	(2,055)	(1,028)	57,504
	<u>\$481,956</u>	<u>\$42,492</u>	<u>\$(2,055)</u>	<u>\$(6,605)</u>	<u>\$515,788</u>
Fiscal year ended July 30, 1988					
Buildings and improvements .....	\$ 58,479	\$ 6,689	\$	\$ 42,498	\$107,666
Leasehold improvements .....	32,160	2,747		(11,700)	23,207
Fixtures and equipment .....	263,557	31,103	(21)	(700)	293,939
Leased properties under capital leases, primarily buildings .....	85,664	3,889	(1,450)	(30,959)	57,144
	<u>\$439,860</u>	<u>\$44,428</u>	<u>\$(1,471)</u>	<u>\$ (861)</u>	<u>\$481,956</u>

- (1) Sales and other changes reflect the following items:
- Fixed asset sales completed during the period.
  - Reclassification of amortization costs relating to properties purchased during the period which previously were operated under capital leases.



CARTER HAWLEY HALE STORES, INC.

SCHEDULE VIII -- VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

Description	Balance at Beginning of Period	Additions Charged to Costs and Expenses	Accounts Charged off Less Recoveries	Elimination for the sale of Thalhimers	Balance At End of Period
(In thousands)					
Twenty-six week period ended February 2, 1991					
Allowance for doubtful accounts .....	<u>\$11,228</u>	<u>\$21,759</u>	<u>\$17,719</u>	<u>\$(1,913)</u>	<u>\$13,355</u>
Fiscal year ended August 4, 1990					
Allowance for doubtful accounts .....	<u>\$10,406</u>	<u>\$39,809</u>	<u>\$38,987</u>		<u>\$11,228</u>
Fiscal year ended July 29, 1989					
Allowance for doubtful accounts .....	<u>\$ 6,514</u>	<u>\$28,032</u>	<u>\$24,140</u>		<u>\$10,406</u>
Fiscal year ended July 30, 1988					
Allowance for doubtful accounts .....	<u>\$ 6,074</u>	<u>\$18,835</u>	<u>\$18,395</u>		<u>\$ 6,514</u>



**CARTER HAWLEY HALE STORES, INC.**  
**SCHEDULE IX--SHORT-TERM BORROWINGS**

<u>Category of Short-Term Borrowings</u>	<u>Balance at End of Period</u>	<u>Weighted Average Interest Rate at End of Period</u>	<u>Maximum Amount Outstanding During the Period(1)</u>	<u>Average Amount Outstanding During the Period(2)</u>	<u>Weighted Average Interest Rate During the Period(2)</u>
(Dollar amounts in thousands)					
Twenty-six week period ended February 2, 1991					
Bank borrowings .....	\$ -	- %	\$ 93,000	\$ 73,695	11.5%
Receivables securitization facility .....	633,798(4)	7.5	723,066	679,781	8.6
Fiscal year ended August 4, 1990					
Bank borrowings .....	40,000(3)	11.4	93,000	37,111	11.7
Receivables securitization facility .....	678,646(4)	8.7	787,792	701,457	9.1
Fiscal year ended July 29, 1989					
Bank borrowings .....	34,487(5)	9.8	610,000	218,092	10.2
Receivables securitization facility .....	617,945(4)	9.0	648,772	405,301	9.5
Fiscal year ended July 30, 1988					
Bank borrowings .....	375,000(3)	9.4	552,680	426,936	8.6

- (1) The maximum amount outstanding during the period is determined on the basis of the amounts outstanding at any month end.
- (2) The average amount outstanding during the period and the weighted average interest rate during the period are computed on the basis of daily balances.
- (3) Represents borrowings under the Company's previous working capital and letter of credit facility. The fiscal 1988 working capital borrowings were classified as long-term debt for financial statement purposes.
- (4) Represents borrowings under the Company's previous credit card receivables securitization facility, classified as long-term debt for financial statement purposes. The facility provided for CHH Commercial Paper, Inc., a special purpose corporation not affiliated with the Company, to acquire interests in the Company's credit card receivables and pay for these interests through the issuance of commercial paper.
- (5) Represents borrowings under a temporary facility to finance receivables originating from deferred payment plans of the Company during the six-month period ended December 4, 1989, classified as long-term debt for financial statement purposes. Subsequently, such receivables were securitized under the Company's previous credit card receivables securitization facility.



**CARTER HAWLEY HALE STORES, INC.**

**SCHEDULE X--SUPPLEMENTARY INCOME STATEMENT INFORMATION**

	<u>Charged to Costs and Expenses</u>		
	<u>Advertising Costs</u>	<u>Taxes Other than Payroll and Income Taxes</u>	<u>Maintenance and Repairs</u>
		(In thousands)	
1991 (six months)	\$46,333	\$18,150	\$ 5,735
1990 (fiscal year)	86,257	42,701	14,420
1989 (fiscal year)	76,590	40,001	13,404
1988 (fiscal year)	71,838	40,139	12,986



# QUARTERLY INFORMATION (Unaudited)

(Dollar amounts in millions, except per share data)	First Quarter	Second Quarter	Current Period
26 weeks ended February 2, 1991			
Sales .....	\$566.3	\$752.3	\$1,318.6
Percent change from prior year <sup>(1)</sup>			
Total sales basis .....	1.5%	(8.6)%	(4.5)%
Comparative store sales basis .....	-	(5.6)	(3.5)
Cost of goods sold, including occupancy and buying costs .....	418.2	566.8	985.0
Selling, general, and administrative expenses ..	122.8	169.4	292.2
Interest expense .....	34.7	36.4	71.1
Interest income .....			
Provision for consolidation programs .....	35.0	12.0	47.0
Gain on sale of Thalhimers <sup>(2)</sup> .....	<u>(30.0)</u>	<u>      </u>	<u>(30.0)</u>
Loss from operations before reorganization item and income taxes .....	(14.4)	(32.3)	(46.7)
Reorganization item .....			
Provision for store closings .....	<u>      </u>	<u>40.0</u>	<u>40.0</u>
Loss from operations before income taxes .....	(14.4)	(72.3)	(86.7)
Income taxes <sup>(3)</sup> .....	<u>(5.7)</u>	<u>(7.5)</u>	<u>(13.2)</u>
Loss from operations .....	(8.7)	(64.8)	(73.5)
Extraordinary costs <sup>(3)</sup> .....	<u>(6.2)</u>	<u>(7.9)</u>	<u>(14.1)</u>
Net loss .....	<u>\$ (14.9)</u>	<u>\$ (72.7)</u>	<u>\$ (87.6)</u>
Loss per common share			
Operations .....	\$ (.30)	\$ (2.25)	\$ (2.55)
Extraordinary costs .....	<u>(.22)</u>	<u>(.27)</u>	<u>(.49)</u>
	<u>\$ (.52)</u>	<u>\$ (2.52)</u>	<u>\$ (3.04)</u>

- (1) Sales increase on a comparative 6 month basis, excluding sales for the twenty-seven weeks ended February 3, 1990 for Thalhimers, which was sold.
- (2) Thalhimers' results of operations for the thirteen week period ended November 3, 1990, the effective date of sale, are excluded from operations and are incorporated in the calculation of the gain on sale.
- (3) The income tax benefit for the first quarter was recorded based on the anticipated rate of 40 percent for the entire fiscal period. As a result of the loss incurred in the second quarter, the actual income tax benefit for the Current Period was recorded at an incremental rate of 15.2 percent. The income tax benefit, and the tax effect on the extraordinary costs, was adjusted in the second quarter to reflect the tax benefit for the Current Period.



# QUARTERLY INFORMATION (Unaudited)

(Dollar amounts in millions, except per share data)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
1990*					
Sales .....	\$658.8	\$984.8	\$590.9	\$623.3	\$2,857.8
Percent change from prior year					
Total sales basis .....	3.5%	5.8%	(.8)%	(.2)%	2.5%
Comparative store sales basis ....	4.0	2.5	.3	.9	2.0
Cost of goods sold, including occupancy and buying costs .....	471.0	714.2	427.2	473.0	2,085.4
Selling, general, and administrative expenses	149.0	189.9	130.7	148.0	617.6
Interest expense .....	43.1	44.5	42.2	44.4	174.2
Interest income .....				(12.7)	(12.7)
Other (income) expense .....	1.4	2.8	1.8	(1.2)	4.8
Earnings (loss) from operations before income taxes .....	(5.7)	33.4	(11.0)	(28.2)	(11.5)
Income taxes .....	(2.3)	13.4	(4.4)	(8.7)	(2.0)
Earnings (loss) from operations .....	(3.4)	20.0	(6.6)	(19.5)	(9.5)
Extraordinary costs .....	(10.5)			(6.0)	(16.5)
Net earnings (loss) .....	\$ (13.9)	\$ 20.0	\$ (6.6)	\$ (25.5)	\$ (26.0)
Earnings (loss) per common share					
Operations .....	\$ (.16)	\$ .80	\$ (.24)	\$ (.70)	\$ (.37)
Extraordinary costs .....	(.49)			(.22)	(.66)
	\$ (.65)	\$ .80	\$ (.24)	\$ (.92)	\$ (1.03)

\* Fiscal 1990 was a 53 week year, with the extra week included in the second quarter of the year.



# QUARTERLY INFORMATION (Unaudited)

(Dollar amounts in millions,  
except per share data)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
1989					
Sales	\$636.7	\$930.7	\$595.4	\$624.6	\$2,787.4
Percent change from prior year					
Total sales basis	4.3%	7.5%	9.0%	5.1%	6.5%
Comparative store sales basis	3.4	6.5	8.0	4.2	5.6
Cost of goods sold, including occupancy and buying costs	450.3	674.7	423.5	452.7	2,001.2
Selling, general, and administrative expenses	156.2	179.0	136.0	136.2	607.4
Interest expense	36.9	40.4	41.3	41.8	160.4
Other expense				6.0	6.0
Earnings (loss) from operations before income taxes	(6.7)	36.6	(5.4)	(12.1)	12.4
Income taxes	(2.7)	14.7	(2.2)	(4.8)	5.0
Earnings (loss) from operations	(4.0)	21.9	(3.2)	(7.3)	7.4
Extraordinary costs		(8.3)		(.9)	(9.2)
Change in accounting	15.3				15.3
Net earnings (loss)	\$ 11.3	\$ 13.6	\$ (3.2)	\$ (8.2)	\$ 13.5
Earnings (loss) per common share					
Operations	\$ (.18)	\$ 1.01	\$ (.15)	\$ (.35)	\$ .34
Extraordinary costs		(.38)		(.04)	(.42)
Change in accounting	.70				.70
	\$ .52	\$ .63	\$ (.15)	\$ (.39)	\$ .62

Closing Market Price Ranges of Common Stock	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
26 weeks ended February 2, 1991					\$ 5 1/8
High	\$ 5 1/8	\$3 7/8			2
Low	2	2 1/2			
1990 (53 weeks ended August 4, 1990)					\$14 1/4
High	\$14 1/4	\$9 1/4	\$8	\$ 6 5/8	4 7/8
Low	8 3/4	6 1/8	5 3/8	4 7/8	
1989 (52 weeks ended July 29, 1989)					\$14 1/2
High	\$10 1/8	\$9 3/8	\$9 1/8	\$14 1/2	7 3/4
Low	8 7/8	7 3/4	8 1/8	9	

The New York Stock Exchange is the principal market on which the Company's common stock is traded.



# FIVE YEAR FINANCIAL SUMMARY

(Dollar amounts in thousands, except per share data)	Current Period (26 weeks)	1990 (53 weeks)	1989 (52 weeks)	1988 (52 weeks)	1987 (26 weeks)	1986 (52 weeks)	1985 (52 weeks)
<b>For the Year</b>							
Sales .....	\$1,318,565	\$2,857,819	\$2,787,393	\$2,617,143	\$1,164,338	\$2,995,977	\$2,889,950
Percent increase from prior year .....	(4.5)(1)	2.5	6.5	.7(2)	5.8(3)	3.7	5.1
Cost of goods sold, including occupancy and buying costs .....	985,018	2,085,344	2,001,188	1,879,664	919,764	2,168,653	2,123,185
Selling, general, and administrative expenses .....	292,241	617,580	607,441	587,869	349,185	685,680	660,346
Interest expense .....	71,046	174,234	160,344	135,600	28,134	82,915	91,203
Interest income .....		(12,700)					
Provision for consolidation programs ..	47,000						
Gain on sale of Thalhimers .....	(30,000)						
Other (income) expense (4) .....		4,831	6,000	(1,500)	42,850	27,200	
Earnings (loss) from continuing operations before reorganization item and income taxes .....	(46,740)	(11,470)	12,420	15,510	(175,595)	31,529	15,216
Provision for store closings .....	40,000						
Pretax earnings (loss) from continuing operations .....	(86,740)	(11,470)	12,420	15,510	(175,595)	31,529	15,216
Income taxes .....	(13,200)	(2,000)	5,000	6,200	(68,300)	26,500	(3,000)
Earnings (loss) from continuing operations .....	(73,540)	(9,470)	7,420	9,310	(107,295)	5,029	18,216
Discontinued operations, net of income taxes(5) .....					(63,578)	42,586	29,809
Extraordinary costs and changes in accounting(6) .....	(14,070)	(16,500)	6,050	8,350		(43,401)	
Net earnings (loss) .....	\$ (87,610)	\$ (25,970)	\$ 13,470	\$ 17,660	\$ (170,873)	\$ 4,214	\$ 48,025
Cash dividends .....				\$ 2,055	\$ 21,155	\$ 54,255	\$ 53,638
<b>Per Common Share</b>							
Earnings (loss) from continuing operations .....	\$ (2.55)	\$ (.37)	\$ .34	\$ .33	\$ (6.06)	\$ (1.23)	\$ (.60)
Cash dividends .....					\$ .305	\$ 1.22	1.22
<b>At Year End</b>							
Accounts and other receivables, net (including accounts sold) .....	\$ 699,961	\$ 745,883	\$ 746,305	\$ 473,826	\$ 546,819	\$ 520,696	\$ 656,644
Merchandise inventories .....	355,449	550,433	562,514	536,656	432,866	497,924	550,239
Owned property and equipment, net ..	464,081	544,846	502,458	472,658	411,905	440,213	480,847
Leased property under capital leases, net .....	47,609	51,478	58,518	63,003	90,178	96,879	108,965
Total assets .....	1,755,421	2,045,194	1,988,365	1,671,622	1,922,086	1,905,807	2,116,410
Receivables based financing .....	633,798	678,646	652,432	351,000	149,000	191,000	261,000
Liabilities subject to settlement under the reorganization proceedings ..	598,650						
Other long-term debt .....	452,307	872,687	878,421	826,248	620,820	336,452	309,088
Capital lease obligations .....	62,116	67,110	78,244	83,168	112,042	119,783	135,033
Redeemable preferred stock .....					300,000	300,000	300,000
Common stock and other shareholders' equity .....	(272,627)	(193,820)	(211,617)	(230,191)	145,772	324,207	359,354
Common shares outstanding (in thousands) .....	30,369	29,848	23,060	22,592	20,367	20,042	19,559
Common shareholders .....	23,059	22,330	21,761	20,984	16,211	9,951	12,205
Employees .....	24,000	36,000	37,000	37,000	37,000	37,000	45,000

- (1) Sales increase on a comparative six month basis, excluding sales for the twenty-seven weeks ended February 3, 1990 for Thalhimers which was sold.
- (2) Sales increase on a comparative 12 month basis, excluding the 1987 period sales of John Wanamaker and two stores of The Broadway-Southwest, which were sold.
- (3) Sales increase on a comparative six month basis, excluding 1986 sales of John Wanamaker.
- (4) Includes gains on asset sales of \$7.3 million in 1990 and \$30.0 million in 1988, costs of buying office closure of \$12.1 million in 1990 and \$6.0 million in 1989, costs of operational and facility realignment programs of \$28.5 million in 1988 and \$15.7 million in the 1987 period, loss on sale of John Wanamaker of \$4.0 million in the 1987 period and \$2.2 million in 1986, and costs relating to the restructuring program of \$23.1 million in the 1987 period and \$25.0 million in 1986.



**FIVE YEAR FINANCIAL SUMMARY (Continued)**

- (5) Reflects operating results of the Company's former specialty store divisions comprising Bergdorf Goodman, Contempo Casuals, and Neiman Marcus.
- (6) Includes extraordinary charge of \$16.5 million in 1990 for the uninsured loss associated with the October 1989 San Francisco earthquake, income from changes in accounting for income taxes of \$15.3 million in 1989 and for capitalization of certain inventory costs of \$10.1 million in 1988, costs relating to early retirements of debt of \$14.1 million in the Current Period, of \$9.2 million in 1989, \$1.7 million in 1988 and \$29.3 million in 1986, and charge for change in accounting for computer software development costs of \$14.1 million in 1986.



# CARTER HAWLEY HALE STORES, INC.

## INDEX TO EXHIBITS

<u>Exhibit No.</u>	<u>Description</u>
2.1	Agreement of Transfer and Plan of Restructuring dated as of July 24, 1987 by and among Carter Hawley Hale Stores, Inc., General Cinema Corporation and The Neiman Marcus Group, Inc.; incorporated by reference to Exhibit 1 to the Form 8-K dated August 20, 1987.
3.1	Restated Certificate of Incorporation of the Company as adopted on August 26, 1987; incorporated by reference to Annex XIV to the Registration Statement (No. 33-16114) of Carter Hawley Hale Stores, Inc. filed July 28, 1987.
3.2	Bylaws of the Company, as adopted on July 26, 1984, as amended through October 1, 1986; incorporated by reference to Exhibit 3.2 to the Form 10-K for the year ended January 31, 1987.
3.3	Form of Certificate of Designation, Preferences and Rights of Series B Junior Participating Exchangeable Convertible Preferred Stock of Carter Hawley Hale Stores, Inc.; incorporated by reference to Exhibit 3.6 to the Registration Statement (No. 33-16114) of Carter Hawley Hale Stores, Inc. filed July 28, 1987.
4.1	Indenture dated as of August 15, 1987, between the Company and Security Pacific National Bank with respect to 12 1/4% Senior Subordinated Notes due 1996; incorporated by reference to Exhibit 1 to the Form 8-K dated August 31, 1987.
4.2	Indenture dated as of August 15, 1987, between the Company and Security Pacific National Bank with respect to 12 1/2% Senior Subordinated Debentures due 2002; incorporated by reference to Exhibit 2 to the Form 8-K dated August 31, 1987.
4.3	Loan Agreement dated as of August 27, 1987, among The Prudential Insurance Company of America, Carter Hawley Hale Stores, Inc. and Thalheimer Brothers, Inc. with respect to \$350,000,000; incorporated by reference to Exhibit 4.5 to the Form 10-K for the twenty-six weeks ended August 1, 1987.
4.4	Term Loan Agreement dated as of June 28, 1988, among Carter Hawley Hale Stores, Inc., Thalheimer Brothers, Inc., the Banks Party thereto, and Bank of America, as agent, with respect to \$135,000,000; incorporated by reference to Exhibit 4.8 to the Form 10-K for the year ended July 30, 1988.
4.5	Working Capital Credit Agreement dated as of July 26, 1989, among Carter Hawley Hale Stores, Inc., the Banks Party thereto, and Bank of America, as agent, with respect to \$140,000,000, as amended and restated on May 31, 1990; incorporated by reference to Exhibit 4.5 to the Form 10-K for the fiscal year ended August 4, 1990.
4.6	Amendment No. 2 to Working Capital Credit Agreement among Carter Hawley Hale Stores, Inc., the Banks Party thereto, and Bank of America, as agent, executed October 19, 1990; incorporated by reference to exhibit 4.6 to the Form 10-K for the fiscal year ended August 4, 1990.

The Company has outstanding certain other long-term indebtedness. Such long-term indebtedness does not exceed 10% of the total assets of the Company and its subsidiaries; therefore, copies of instruments defining the rights of holders of such indebtedness are not included as exhibits. The Company agrees to furnish copies of such instruments to the Securities and Exchange Commission upon request.



<u>Exhibit No.</u>	<u>Description</u>
4.7	Rights agreement between Carter Hawley Hale Stores, Inc. and Security Pacific National Bank as Rights Agent dated as of September 12, 1987; incorporated by reference to Exhibit 4.7 to the Form 10-K for the twenty-six weeks ended August 1, 1987.
10.1	Receivables Purchase Agreement between CHH Receivables, Inc. and Carter Hawley Hale Stores, Inc. dated as of November 1, 1988; incorporated by reference to Exhibit 10.1 to Form 8 dated June 29, 1989.
10.2	Amendment No. 1 to Receivables Purchase Agreement between CHH Receivables, Inc. and Carter Hawley Hale Stores, Inc. executed on November 1, 1989; incorporated by reference to Exhibit 10.2 to Form 10-K for the fiscal year ended August 4, 1990.
10.3	Transfer and Administration Agreement among CHH Commercial Paper, Inc. and CHH Receivables, Inc. and Carter Hawley Hale Stores, Inc. dated as of November 1, 1988; incorporated by reference to Exhibit 10.2 to Form 8 dated June 29, 1989.
10.4	Amendment No. 1 to Transfer and Administration Agreement among CHH Commercial Paper, Inc. and CHH Receivables, Inc. and Carter Hawley Hale Stores, Inc. executed on November 1, 1989; incorporated by reference to Exhibit 10.4 to Form 10-K for the fiscal year ended August 4, 1990.
10.5	Thalhimer Receivables Agreement between Carter Hawley Hale Stores, Inc. and Thalhimer Brothers, Inc. dated as of November 1, 1988; incorporated by reference to Exhibit 10.3 to Form 8 dated June 29, 1989.
10.6	Amendment No. 1 to Thalhimer Receivables Agreement between Carter Hawley Hale Stores, Inc. and Thalhimer Brothers, Inc. executed on November 1, 1989; incorporated by reference to Exhibit 10.6 to Form 10-K for the fiscal year ended August 4, 1990.
10.7	Letter of Credit Reimbursement Agreement among CHH Receivables, Inc., Carter Hawley Hale Stores, Inc., Swiss Bank Corporation, Bayerische Vereinsbank, AG, CHH Commercial Paper, Inc., and Bankers Trust Company dated as of November 1, 1988; incorporated by reference to Exhibit 10.4 to Form 8 dated June 29, 1989.
10.8	Amendment No. 1 to Letter of Credit Reimbursement Agreement among CHH Receivables, Inc., Carter Hawley Hale Stores, Inc., Swiss Bank Corporation, Bayerische Vereinsbank, AG, CHH Commercial Paper, Inc., and Bankers Trust Company executed on November 1, 1989; incorporated by reference to Exhibit 10.8 to Form 10-K for the fiscal year ended August 4, 1990.
10.9	Deferred Compensation Plan of Carter Hawley Hale Stores, Inc. dated as of June 3, 1976 and amended as of February 4, 1977; incorporated by reference to Exhibit 15 to the Form 10-K for the fiscal year ended January 29, 1977.
10.10	Amendment to the Deferred Compensation Plan of Carter Hawley Hale Stores, Inc. executed on February 6, 1980; incorporated by reference to Exhibit 20 to the Form 10-K for the fiscal year ended February 2, 1980.
10.11	Amendment to the Deferred Compensation Plan of Carter Hawley Hale Stores, Inc. executed on April 7, 1983; incorporated by reference to Exhibit 10.13 to the Form 10-K for fiscal year ended January 29, 1983.



<u>Exhibit No.</u>	<u>Description</u>
10.12	Amendment to the Deferred Compensation Plan of Carter Hawley Hale Stores, Inc., effective as of the effective time of the Restructuring; incorporated by reference to Exhibit 4.5 to Post-Effective Amendment No. 5 to the Registration Statement (No. 2-68102) of Carter Hawley Hale Stores, Inc. filed July 31, 1987.
10.13	Carter Hawley Hale Stores, Inc. Long-Term Incentive Compensation Plan as approved by shareholders on June 4, 1980; incorporated by reference to Exhibit A to the Proxy Statement for the Annual Meeting of Shareholders held on June 4, 1980; and amendment thereto dated April 15, 1984; incorporated by reference to Exhibit 10.5 to the Form 10-K for the fiscal year ended January 28, 1984.
10.14	Carter Hawley Hale Stores, Inc. Long-Term Incentive Compensation Plan (including 1987 Amendments); incorporated by reference to Exhibit 4.5 to Post-Effective Amendment No. 7 to the Registration Statement (No.2-68101) of Carter Hawley Hale Stores, Inc. filed July 31, 1987.
10.15	Carter Hawley Hale Stores, Inc. 1985 Stock Incentive Plan as approved by shareholders on June 4, 1985; incorporated by reference to Exhibit A to Proxy Statement dated April 26, 1985.
10.16	Carter Hawley Hale Stores, Inc. 1985 Stock Incentive Plan (including 1987 Amendments); incorporated by reference to Exhibit 4.1 to Post-Effective Amendment No. 1 to the Registration Statement (No. 2-98321) of Carter Hawley Hale Stores, Inc. filed July 31, 1987.
10.17	Carter Hawley Hale Stores, Inc. Amended and Restated Nonqualified Stock Option Plan as approved by shareholders on June 4, 1985; incorporated by reference to Exhibit 4.2 to the Form 10-Q for the quarter ended May 4, 1985.
10.18	Carter Hawley Hale Stores, Inc. Amended and Restated Nonqualified Stock Option Plan (including 1987 Amendments); incorporated by reference to Exhibit 4.1 to Post-Effective Amendment No. 13 to the Registration Statement (No. 2-42202) of Carter Hawley Hale Stores, Inc. filed July 31, 1987.
10.19	Profit Sharing Plan for Employees of Carter Hawley Hale Stores, Inc., as amended and restated as of July 1, 1987; incorporated by reference to Exhibit 4.1 to Post-Effective Amendment No. 10 to the Registration Statement (No. 2-64326) of Carter Hawley Hale Stores, Inc. filed July 31, 1987.
10.20	Carter Hawley Hale Stores, Inc. 1987 Stock Incentive Plan; incorporated by reference to Annex VI to the Registration Statement (No. 33-16114) of Carter Hawley Hale Stores, Inc. filed July 28, 1987.
10.21	Carter Hawley Hale Stores, Inc. Annual Incentive Plan; incorporated by reference to Exhibit 10.17 to the Registration Statement (No. 33-16114) of Carter Hawley Hale Stores, Inc. filed July 28, 1987.
10.22	Agreement between Carter Hawley Hale Stores, Inc. and General Cinema Corporation ("General Cinema") dated April 16, 1984 governing General Cinema's investment in Carter Hawley Hale Stores, Inc.; incorporated by reference to Exhibit 10.10 to the Registration Statement (No. 33-16114) of Carter Hawley Hale Stores, Inc. filed July 28, 1987.



<u>Exhibit No.</u>	<u>Description</u>
10.23	Agreement between Carter Hawley Hale Stores, Inc. and General Cinema dated December 7, 1986 governing General Cinema's investment in Carter Hawley Hale Stores, Inc.; incorporated by reference to Exhibit 10.11 to the Registration Statement (No. 33-16114) of Carter Hawley Hale Stores, Inc. filed July 28, 1987.
10.24	Letter Agreement between Carter Hawley Hale Stores, Inc. and General Cinema dated as of August 11, 1987, governing General Cinema's investment in Carter Hawley Hale Stores, Inc. following the Restructuring; incorporated by reference to Exhibit 7 to the Form 8-K dated August 20, 1987.
10.25	Carter Hawley Hale Stores, Inc. Management Deferred Compensation Plan; incorporated by reference to Exhibit 10.19 to the Registration Statement (No. 33-16114) of Carter Hawley Hale Stores, Inc. filed July 28, 1987.
10.26	Carter Hawley Hale Stores, Inc. Deferred Compensation Plan for Executives; incorporated by reference to Exhibit 10.20 to the Registration Statement (No. 33-16114) of Carter Hawley Hale Stores, Inc. filed July 28, 1987.
10.27	Carter Hawley Hale Stores, Inc. Supplemental Executive Retirement Plan; incorporated by reference to Exhibit 10.14 to the Form 10-K for the fiscal year ended January 28, 1984.
10.28	Form of employment agreement between Carter Hawley Hale Stores, Inc. and certain officers; incorporated by reference to Exhibit 10.22 to the Registration Statement (No. 33-16114) of Carter Hawley Hale Stores, Inc. filed July 28, 1987.
10.29	Form of employment agreement between Carter Hawley Hale Stores, Inc. and certain officers; incorporated by reference to Exhibit 10.23 to the Registration Statement (No. 33-16114) of Carter Hawley Hale Stores, Inc. filed July 28, 1987.
10.30	Form of employment agreement between Carter Hawley Hale Stores, Inc. and certain officers; incorporated by reference to Exhibit 10.24 to the Registration Statement (No. 33-16114) of Carter Hawley Hale Stores, Inc. filed July 28, 1987.
10.31	Form of consulting agreement between Carter Hawley Hale Stores, Inc. and certain officers; incorporated by reference to Exhibit 10.25 to the Registration Statement (No. 33-16114) of Carter Hawley Hale Stores, Inc. filed July 28, 1987.
10.32	Employment agreement between Carter Hawley Hale Stores, Inc. and Philip M. Hawley; incorporated by reference to Exhibit 10.1 to the Form 10-Q for the quarter ended May 4, 1985.
10.33	Employment agreement between Carter Hawley Hale Stores, Inc. and Waldo H. Burnside; incorporated by reference to Exhibit 10.2 to the Form 10-Q for the quarter ended May 4, 1985.
10.34	Form of severance agreement between Carter Hawley Hale Stores, Inc. and certain officers; incorporated by reference to Exhibit 10.17 to the Form 10-K for the fiscal year ended January 28, 1984.
10.35	Form of indemnification agreement between Carter Hawley Hale Stores, Inc. and each of its directors; incorporated by reference to Annex XV to the Registration Statement (No. 33-16114) of Carter Hawley Hale Stores, Inc. filed July 28, 1987.



<u>Exhibit No.</u>	<u>Description</u>
10.36	Form of indemnification agreement between Carter Hawley Hale Stores, Inc. and certain of its officers; incorporated by reference to Exhibit 10.31 to the Registration Statement (No. 33-16114) of Carter Hawley Hale Stores, Inc. filed July 28, 1987.
10.37	Tax Allocation Agreement dated as of July 24, 1987 between Carter Hawley Hale Stores, Inc. and The Neiman Marcus Group, Inc.; incorporated by reference to Exhibit 2 to the Form 8-K dated August 20, 1987.
10.38	Employee Benefits Agreement dated as of July 24, 1987 between Carter Hawley Hale Stores, Inc. and The Neiman Marcus Group, Inc.; incorporated by reference to Exhibit 3 to the Form 8-K dated August 20, 1987.
10.39	Information Services Agreement dated as of July 24, 1987 between Carter Hawley Hale Stores, Inc. and The Neiman Marcus Group, Inc.; incorporated by reference to Exhibit 4 to the Form 8-K dated August 20, 1987.
10.40	Transitional Services Agreement dated as of July 24, 1987 between Carter Hawley Hale Stores, Inc. and The Neiman Marcus Group, Inc.; incorporated by reference to Exhibit 5 to the Form 8-K dated August 20, 1987.
10.41	Revolving Credit Agreement dated as of February 11, 1991 among Carter Hawley Hale Stores, Inc., as Borrower, the Banks Party Hereto, and Chemical Bank, as Agent.
10.42	Receivables Retransfer Agreement dated as of March 27, 1991 among CHH Receivables, Inc., CHH Commercial Paper, Inc., and Carter Hawley Hale Stores, Inc.
10.43	Transfer and Administration Agreement dated as of March 27, 1991 between Camelback Funding Corp. and Carter Hawley Hale Stores, Inc.
10.44	Credit Agreement dated as of March 27, 1991 among Camelback Funding Corp., the Lenders Named Herein, and Chemical Bank, as Agent.
10.45	Assignment and Security Agreement dated as of March 27, 1991 between Camelback Funding Corp. and Chemical Bank, as Collateral Agent.
10.46	Intercreditor Agreement dated as of March 27, 1991 between Carter Hawley Hale Stores, Inc. and Chemical Bank.
10.47	Administration Agreement dated as of March 27, 1991 between Camelback Funding Corp. and Carter Hawley Hale Stores, Inc.
10.48	Management Agreement dated as of March 27, 1991 among Camelback Funding Corp., Carter Hawley Hale Stores, Inc., and Lord Securities Corporation.
10.49	Agreement dated as of September 15, 1989 between Carter Hawley Hale Stores, Inc. and the Associated Merchandising Corporation.
10.50	Stock Purchase Agreement dated as of October 9, 1990 by and between The May Department Stores Company and Carter Hawley Hale Stores, Inc. incorporated by reference to exhibit 2.1 to the Form 8-K dated December 14, 1990.



**Exhibit  
No.**

**Description**

- 10.51 Amendment No. 1 to Stock Purchase Agreement dated December 14, 1990 by and between Carter Hawley Hale Stores, Inc. and The May Department Stores Company incorporated by reference to exhibit 2.2 to the Form 8-K dated December 14, 1990.
- 11. Computation of Earnings per Share included on page 78.
- 22. Carter Hawley Hale Stores, Inc. Subsidiaries included on page 79.
- 24. Consent of Price Waterhouse included on page 34.
- 25. Powers of Attorney included on pages 30 and 31.

Copies of any of the foregoing exhibits may be obtained by making a written request to the Secretary of the Company at the address shown on the cover. Copies will be furnished at a price of \$.20 per page with a minimum charge of \$10 per exhibit.



## CARTER HAWLEY HALE STORES, INC.

EXHIBIT 11

## Computation of Earnings per Share

	Twenty-six Week Ended	Twenty-Seven Week Ended	Year Ended		
	February 2, 1991	February 3, 1990 (Unaudited)	August 4, 1990	July 29, 1989	July 30, 1988
Primary earnings (loss) per common share					
Earnings (loss) from operations	\$(73,540,000)	\$ 16,660,000	\$ (9,470,000)	\$ 7,420,000	\$ 9,310,000
Preferred dividend requirements					2,055,000
Earnings (loss) from operations used to compute primary earnings (loss) per common share	(73,540,000)	16,660,000	(9,470,000)	7,420,000	7,255,000
Extraordinary items	(14,070,000)	(10,500,000)	(16,500,000)	(9,250,000)	(1,750,000)
Cumulative effect of changes in accounting				15,300,000	10,100,000
Net earnings (loss) used to compute primary earnings (loss) per common share	\$(87,610,000)	\$ 6,160,000	\$(25,970,000)	\$13,470,000	\$15,605,000
Weighted average number of common shares outstanding during the year	30,398,841	24,622,995	26,833,816	22,728,459	22,167,667
Shares issuable in connection with stock options using the treasury stock method		877,806		900,539	1,155,719
Reduction in shares in connection with the 1987 Stock Incentive Plan using the treasury stock method	(1,626,246)	(1,763,820)	(1,718,225)	(1,811,164)	(1,525,275)
Weighted average number of common shares, including common stock equivalents, used to compute primary earnings (loss) per common share	28,772,595	23,736,981	25,115,591	21,817,834	21,798,111
Primary earnings (loss) per common share					
Operations	\$ (2.55)	\$ .70	\$ (.37)	\$ .34	\$ .33
Extraordinary items	(.49)	(.44)	(.66)	(.42)	(.08)
Cumulative effect of changes in accounting				.70	.47
Total	\$ (3.04)	\$ .26	\$ (1.03)	\$ .62	\$ .72
Fully diluted earnings (loss) per common share					
Earnings (loss) from operations	\$(73,540,000)	\$ 16,660,000	\$ (9,470,000)	\$ 7,420,000	\$ 9,310,000
Preferred dividend requirements					2,055,000
Earnings (loss) from operations used to compute fully diluted earnings (loss) per common share	(73,540,000)	16,660,000	(9,470,000)	7,420,000	7,255,000
Extraordinary items	(14,070,000)	(10,500,000)	(16,500,000)	(9,250,000)	(1,750,000)
Cumulative effect of changes in accounting				15,300,000	10,100,000
Net earnings (loss) used to compute fully diluted earnings (loss) per common share	\$(87,610,000)	\$ 6,160,000	\$(25,970,000)	\$13,470,000	\$15,605,000
Weighted average number of common shares outstanding during the year	30,398,841	24,622,995	26,833,816	22,728,459	22,167,667
Shares issuable in connection with stock options using the treasury stock method		877,806		1,270,456	1,155,719
Reduction in shares in connection with the 1987 Stock Incentive Plan using the treasury stock method	(1,626,246)	(1,763,820)	(1,718,225)	(1,765,679)	(1,525,275)
Weighted average number of common shares, including common stock equivalents, used to compute fully diluted earnings (loss) per common share	28,772,595	23,736,981	25,115,591	22,233,236	21,798,111
Fully diluted earnings (loss) per common share					
Operations	\$ (2.55)	\$ .70	\$ (.37)	\$ .34	\$ .33
Extraordinary items	(.49)	(.44)	(.66)	(.42)	(.08)
Cumulative effect of changes in accounting				.69	.47
Total	\$ (3.04)	\$ .26	\$ (1.03)	\$ .61	\$ .72



EXHIBIT 22

CARTER HAWLEY HALE STORES, INC.

Subsidiaries as of February 2, 1991

	<u>Percentage of Ownership</u>	<u>State of Incorporation</u>
Carter Hawley Hale Credit Corp.	100%	Nevada
Carter Hawley Hale Properties, Inc.	100	California
Private Business Air Service, Inc.	100	California
CHH Receivables, Inc.	100	Delaware



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**JAN 1993**

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